

The Finnish Property Market 2015



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Preface

The Finnish Property Market 2015 aims to satisfy the information needs of international investors and other players interested in the Finnish property market. KTI Finland publishes this report annually in March.

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

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

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

This publication is sponsored by 13 companies and organisations representing the Finnish property investment, development, management and finance markets. KTI wishes to thank the sponsors: City of Helsinki, Invest in Finland, KIINKO Real Estate Education, LocalTapiola, NCC Property Development, Newsec, Ovenia, RAKLI, SATO, SEB Group, Sirius Capital Partners, Skanska and SRV.

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

Hanna Kaleva
KTI Finland

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

Basic facts about Finland

Geography	
Total area	338,000 square kilometres
Distances	1,160 km north to south 540 km east to west
People	
Population	5.48 million Density: 18 inhabitants per square kilometre Helsinki 2,866 per km ² Uusimaa region (southern Finland): 174 per km ² Lappi region (northern Finland): 2 per km ²
Languages	Two official languages: Finnish, spoken by 89.3 % Swedish, spoken by 5.3 %
Religions	Lutheran 75.3 % Orthodox 1.1 %
Capital city	Helsinki: 621,000 inhabitants Helsinki region: 1.4 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo: 264,000 Tampere: 223,000 Vantaa: 210,000 Oulu: 196,000 Turku: 184,000 Jyväskylä: 136,000 Kuopio: 108,000 Lahti: 104,000
Economy	
GDP per capita	€37,018 (2013)
Most important exporting industries	Chemical industry products Metal and engineering products Forest and paper industry products Electronics and electrotechnical goods
Currency	Euro (since 2002)
History and governance	Independent democracy since 1917
	Member of the European Union since 1995
Head of State	President of Republic, Sauli Niinistö (since 2012)
Parliament	One chamber, 200 members, elected for 4 years. Current parliament elected in 2011. Biggest parties: National Coalition Party (44 seats), The Social Democratic Party (42), The Finns Party (38), The Center Party (35) Next election in April 2015.

1 The Finnish economy

1.1 The structure of the economy

The Finnish economy is a success story based on globalisation, openness and a well-functioning business environment. Finland is currently one of the richest and most developed countries in the world.

Industrialisation started in Finland later than in most other OECD countries, but has been very rapid, and, due to its significance in Finnish exports, industrial production plays an important role in the economy. Industrial production currently accounts for some 20% of the Finnish economy. After the economic recession in the early 1990s, electronic industries developed rapidly and became one of the main industrial sectors, together with the traditionally strong forestry and metal industries.

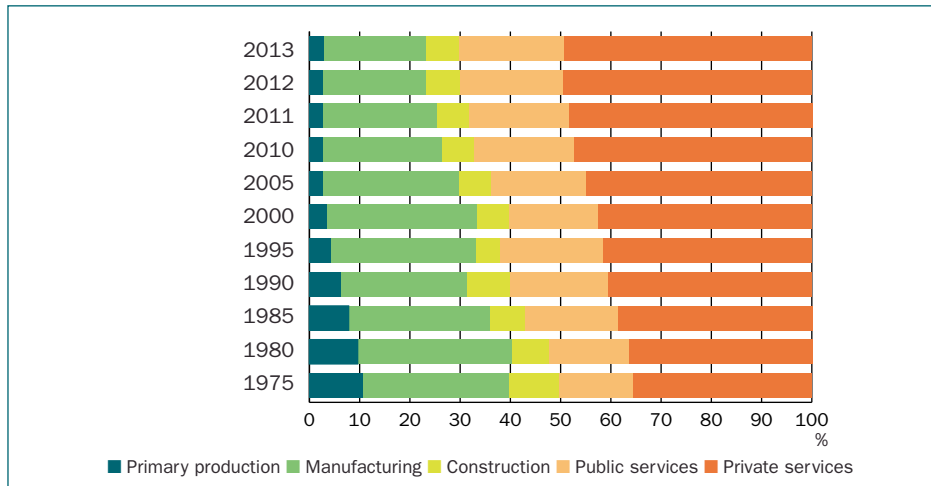
Since the financial crisis started in 2009, the structure of the Finnish economy has, again, gone through profound changes. In recent years, the Finnish manufacturing sectors have suffered from the simultaneous decline of forestry industries and Nokia, which was the most prominent industrial corporation in Finland's history. In recent years, chemical industries' share of total production has increased while that of forestry industries has decreased. In total, the number of jobs in manufacturing industries decreased by 80,000 between 2008 and 2013.

Private services currently account for roughly half of the Finnish gross domestic production, which makes this the biggest sector in the economy. Their share has increased constantly while that of primary production and industry has decreased.

"Private services currently account for some 50% of the Finnish GDP"

The share of foreign trade of the Finnish economy has increased significantly during the past few decades, and the changes in exports have a profound impact on economic growth. The international competitiveness of Finnish industrial production was improved by the severe recession in the early 1990s, which forced corporations to institute structural reforms in order to survive, both in terms of increasing their cost competitiveness and developing productivity. Finnish exports more than quadrupled between 1990 and 2008. In 2009, due to the global economic recession, Finland lost one fifth of the volume of its exports.

Finnish economic structure, %



Source: Statistics Finland

In 2013, exports accounted for approximately 40% of the Finnish GDP. In 2014, exports remained at the same level as in the previous year. Exports of transport equipment and mobile technology products increased, while the value of exports of machinery and equipment as well as chemical industry products went down in 2014. Chemical industry retained its position as the biggest exporting industry.

"The Finnish economy is dependent on the competitiveness of the exporting industries"

During the past couple of years, the Finnish exporting industries have faced challenges with regard to their international competitiveness, which has coincided with

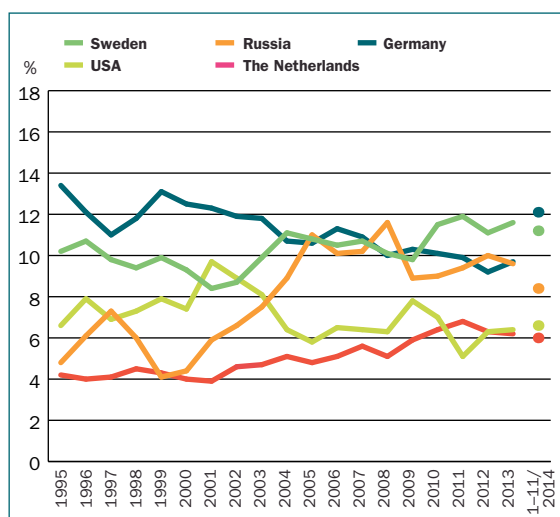
the structural change in the exporting industries. Also, the heavy weight – approximately 27% – of investment goods in Finnish exports has caused difficulties for Finnish exports, as demand for investment goods is depressed by weak economic conditions in the most important target markets.

The share of services of all exports was 29% in 2013. The exported services include typically high technological and engineering skills.

The competitiveness of the Finnish exporting industries has been pressured by labour costs, which have risen more rapidly than in most other countries. In late 2013, a collective wage agreement was reached, which guarantees minimal wage increases until the end of 2015. This supports the competitiveness of the exporting industries, but, on the other hand will restrain domestic demand.

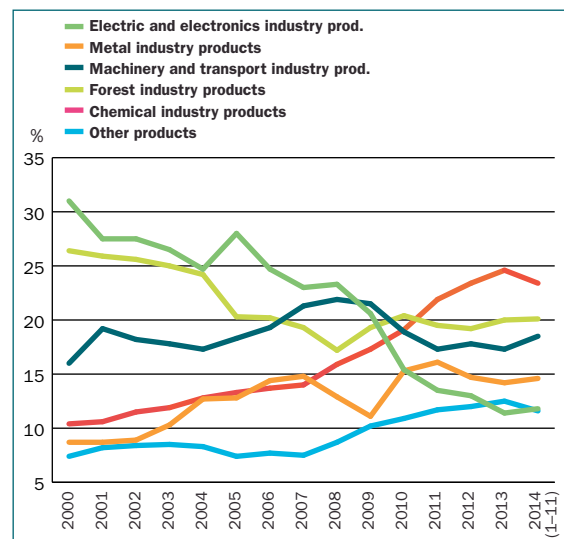
The main target countries for Finnish exports include Germany, Sweden and Russia. In 2014, EU-countries' share of the Finnish exports increased to 57.7%. Russia's share fell to 8% from the previous year's level of 10%.

Finnish exports by target country, % (Top 5 export countries 2013)



Source: Finnish Customs

Finnish exports by industry sector



Source: Finnish Customs

The Russian crisis: no significant impact on the Finnish economy

Russia is one of the most important trading partners of Finland: in 2014, some 8% of Finnish exports went to Russia, and the country's share of Finnish imports amounted to 15%. In early 2000s, the Russian economy grew by 6-7% p.a., which guaranteed a solid basis for the growth of Finnish trade with Russia. Since 2009, the growth has slowed down to 1.5-2% p.a., and the economy started to deteriorate and the Ruble to weaken already before the crisis in Ukraine. In 2015, the Russian economy is expected to contract by 4-5%. Decreasing oil prices, together with international constraints, create enormous pressures on the Russian economy.

The crisis in Ukraine and the restrictive measures taken by the EU due to the crisis have highlighted the economic uncertainty in Russia. Of the EU countries, Finland is among the most dependent on its trade with Russia. Finland also suffers from the restrictions imposed by Russia on, for example, imports of food products. Between January and November 2014, Finnish exports to Russia decreased by 13% compared to the previous year, due to a decrease in the exports of most significant industry sectors. The relative impact has been the biggest for food products, but their absolute volume is not very significant.

The weakening Russian currency also impacts Russian tourism to Finland. It has been estimated that the revenues from Russian travellers decreased by some €100 million in 2014 compared to 2013. The absence of Russian tourists and customers impacts the retailers in the Eastern Finland most severely, as well as the resorts in Northern and Eastern Finland. There are major new property development projects being planned in the vicinity of the Finnish-Russian border, for instance, in the Vaalimaa border

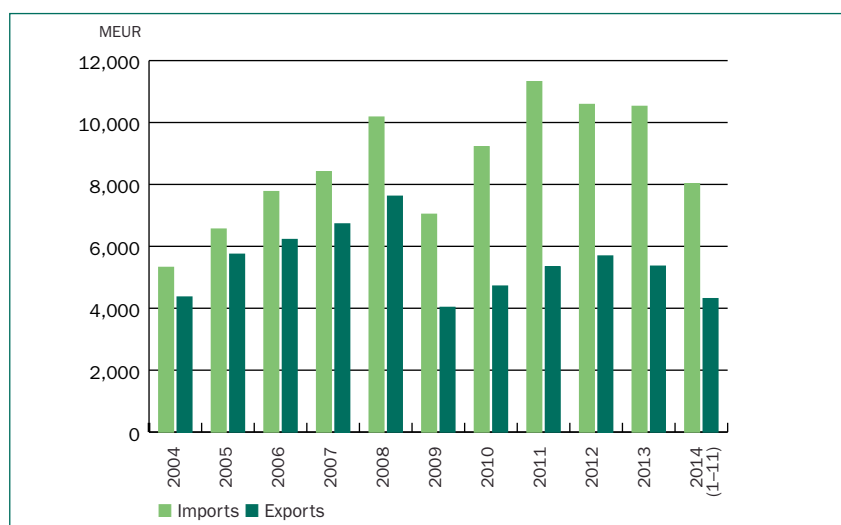
control area. The starts are dependent on the closing of lease agreements as well as financing decisions.

The weakening Russian economy also impacts the position of the Finnish companies with big interests in Russia; for instance, construction company YIT, as well as retailers Kesko and Stockmann. In February 2015, Stockmann published its intention to close down three loss-making department stores in Moscow. Also residential investment company SATO, who currently has some €100 million worth of investments in St Petersburg, has stopped further investments until the conditions in Russia stabilise.

The final impact of the Russian crisis on the Finnish economy depends on various things. First of all, the duration of the EU-restrictions impact the level of investments in Russia, and thus the Finnish exports of machinery and investment goods to Russia. It also remains to be seen whether new restrictions will be introduced. Secondly, the weakening of the Russian credit rating restrains the economic conditions further, which might prolong the crisis. It is also not known to what extent the economic growth in western economies, most importantly in the US, could compensate the Russian impacts on the Finnish economy.

According to the Finnish Ministry of Finance, the direct effects of the restrictions on the Finnish GDP should not be significant, and might amount to approximately 0.1 per cent, if the restrictions continue for long, and if western growth will not be able to compensate their impacts. This would increase Finnish unemployment by 0.2 percent. However, all direct and indirect impacts are very difficult to estimate.

Finnish trade with Russia



Source: Finnish Customs



Photo: Skanska

1.2 Finnish public finances

Compared to most other European countries, Finnish public finances are relatively strong and well-balanced. However, challenges faced by Finnish public finances have increased significantly during the past few years due to the weak economic conditions and the structural change of the economy. The government budget has remained in deficit for the past six years, which means that the general government debt continues increasing. The government debt has recently exceeded the threshold of 60% of the GDP, and will continue increasing in 2015. In 2014, the EMU deficit amounted to some 2.7% of GDP.

Due to the continuously challenging economic conditions, Standard & Poor's decreased the Finnish credit rating to AA+ in October 2014. Moody's and Fitch have, so far, kept the Finnish rating in the best AAA category.

The tightening economic environment has put increasing pressure on Finnish public finances in recent years. Also, mainly due to the rapidly ageing population, structural reforms are needed to control public spending and support fiscal sustainability.

The current government's programme included plenty of balancing actions for the public finances, but as the economic environment has worsened significantly after the programme's introduction in 2011, the government has not been able to balance the economy as planned. The government's actions have included both cuts in public spending and increases in taxes. The biggest structural reforms to, for example, social and welfare services have taken longer than expected, and their final impact on public finances still remain to be seen. Many significant reforms will be postponed to the next government, which is to be assembled after the parliamentary election in April 2015.

"The new parliament
will be elected in April
2015"

The Finnish welfare society is largely based on comprehensive supply of public services, including, for instance, free education and healthcare, as well as social support for families in the forms of child allowances for all families and municipal day-care provision, which is widely used in all income categories. Extensive public responsibility and tax funding are the cornerstones of the Finnish social welfare society. As a result, government expenditure accounts for some 58% of the Finnish GDP, while the average in OECD countries stands at 44.5%.

"Government
expenditure accounts
for 58% of Finnish
GDP"

Finnish municipalities have a significant role in the policy discussions. In the Finnish system, the central government plays a strong guiding role in setting the basic principles of social welfare and in monitoring their implementation. However, the actual provision of social welfare is carried out at the local level, in municipalities. There are currently

320 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. Therefore, structural reforms in the municipalities' responsibilities are essential in ensuring the sustainability of Finnish public finances.

The Finnish parliament is expected to confirm the new legislation for social and welfare services in March 2015. In the reform, the country would be divided into five areas that would be responsible for organising and coordinating all social and healthcare services. All municipalities will belong to one of these five areas, each with a maximum of 19 municipal federations that will be responsible for the actual provision of the services. They will also commission the services from private providers. The main objectives of the reform include the equality of citizens across the municipalities, as well as to control the increase in costs of healthcare services. The reform would significantly decrease the decision-making power of individual municipalities in the management and provision of healthcare services.

"A major reform in healthcare and social services is underway"

A rapidly ageing population is one of the main challenges facing the Finnish economy. The Finnish age pyramid is one of the most unfavourable within the EU. By 2020, the old-age dependency ratio (the ratio of those aged 65 and over to those aged 15–64) will increase from its current level of

17%, to 23%. The ratio is deteriorating rapidly because of the retirement of the baby-boomer generations born after World War II, as well as the increasing life expectancy of the population.

"Labour market parties agreed about a pension reform in order to lengthen working careers"

Increasing the supply of workforce by, for instance, lengthening the duration of working life is being actively discussed as an effective means to support the sustainability of public services. This is pursued both by looking for means to speed up the education of younger generations and by postponing retirement for older workers. The official retirement currently stands at 63–68 years, but people typically exit the labour force earlier, the average exit age being 60 years.

In September 2014, the labour market parties agreed about a pension reform, which will gradually, by 2025, increase the earliest retirement age to 65 years. After that, the retirement age will be tied to the development of life expectancy. The aim of the reform is to reduce the sustainability gap of public finances, as well as to raise the employment rate, by lengthening working careers.



Photo: Skanska

1.3 Outlook for the Finnish economy

The Finnish gross domestic production per capita amounted to USD 39,207 in 2013. This is about 6% above the OECD average.

In 2013, the Finnish GDP contracted by some 1.2%. Contrary to the expectations in late 2014, the economy turned more positive towards the year-end, and according to the latest forecasts, the GDP growth ended up slightly in the positive territory in 2014.

Due to the negative growth figures of the past couple of years, the absolute volume of production still stands well below the peak level of 2008. According to the current forecasts, this level will not be reached again until 2018.

"The Finnish GDP growth close to zero in 2014"

Due to its dependence on foreign trade, the Finnish economy is highly exposed to developments in the global economy. As a result of the global turmoil and financial crisis in 2008, the Finnish GDP decreased by 8.3% in 2009, mainly due to the collapse in exports. Continuing uncertainty and tightness of the global economy has caused pressures on the outlook for the Finnish economy ever since.

The volume of Finnish exports continued to decrease slightly in 2014. The exports to EU countries increased by some 4% but exports to Russia significantly decreased. Of the other components of demand, private consumption remained almost unchanged due to tightening taxation, increasing unemployment and zero wage increases. Private investments continued to decrease by more than 4% compared to the previous year.

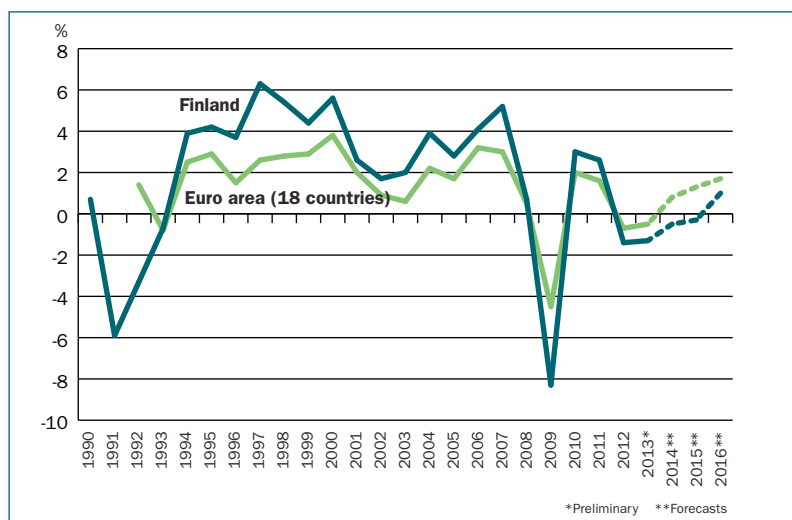
"Private consumption growth still sluggish"

In 2015, most forecasting institutions expect the Finnish GDP growth to return to positive territory. However, the growth will be very moderate, even close to zero, although its basis will be broadened to cover exports, consumption and investments. Towards the end of 2014, there were some positive signs in the orders of vehicle and metal industries, but it still remains to be seen whether they are sustainable. Exports are expected to increase moderately, by some 2-3%. The growth in exports is limited by the relatively weak price competitiveness of the Finnish exporting industries. Finnish exports are, on the other hand, supported by the weakening euro. Also the decreasing oil price enhances the competitiveness of the Finnish exporting industries.

Investments are also expected to return to a moderate growth path due to increased investment in machinery and equipment. The change in private consumption will remain close to zero, as Finnish households continue being cautious with regard to their spending. Consumers' purchasing power, which decreased by 0.6% in 2014, is expected to remain unchanged in 2015, thanks to the low level of inflation. Some slight positive signs can be seen in the consumer confidence indicator, which in January 2015 showed a clear increase from its last year's bottom levels.

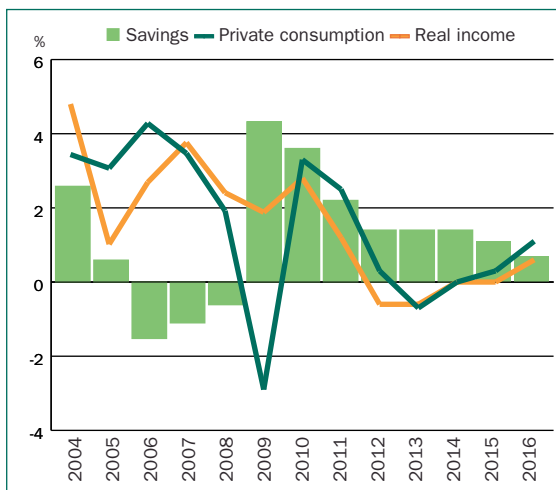
"Consumer confidence turning more positive"

GDP growth in Finland and in the Euro area



Source: Eurostat, OECD, IMF, Nordea

Private consumption, real income and savings

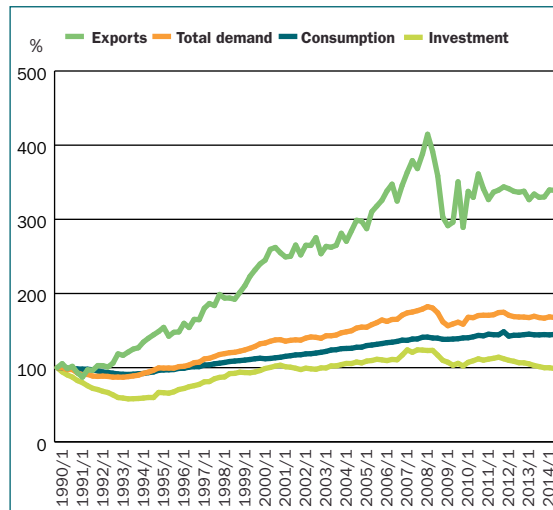


Source: Statistics Finland, Ministry of Finance

The challenging economic conditions are also increasingly reflected in the labour markets. Unemployment is expected to increase to 8.8%. The share of structural long-term unemployment is increasing, which prevents the situation from quickly improving.

"Long-term unemployment is increasing"

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



Source: Statistics Finland

1.4 Finland's international competitiveness

Despite the past few years' challenging conditions, Finland has retained its good position in *The World Economic Forum's Global Competitiveness Report*. In the latest report, published in late 2014, Finland was ranked fourth after Switzerland, Singapore and the United States.

In the ranking, Finland is holding top position in the pillars of higher education and training, as well as innovation. The functioning and transparency of public institutions are also ranked high in the report. Finnish weaknesses include the small market size, weak macroeconomic conditions, and inflexibility of its labour markets.

The international rankings mainly measure the long-term competitiveness of the economies, which is still strong in Finland due to the well-functioning business infrastructure and highly appreciated education system. However, in the current economic situation, weak short-term price competitiveness is regarded as the biggest challenge for the Finnish economy. This competitiveness has been weakened

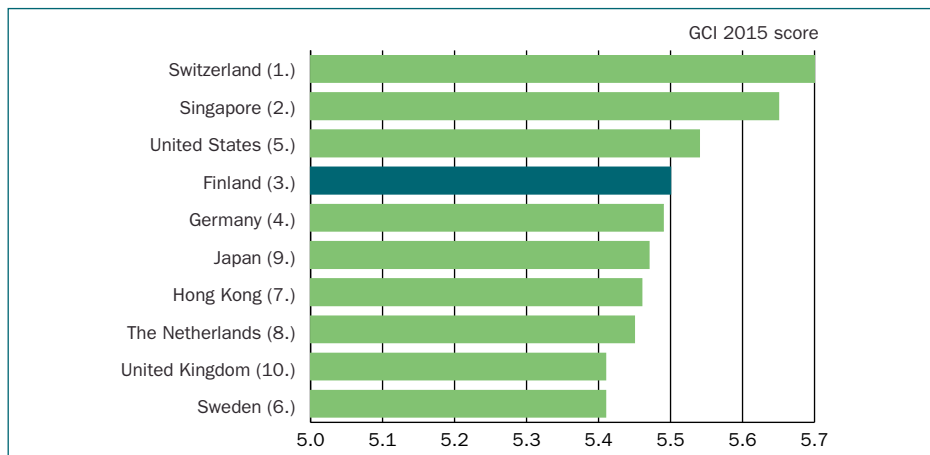
Key Figures – Finnish Economy

	2007	2008	2009	2010	2011	2012	2013	2014	2015**	2016**
GDP (change in vol)	5.2	0.7	-8.3	3.0	2.6	-1.4	-1.3*	-0.5**	-0.3	1.0
Change in exports	9.1	6.6	-20.1	6.2	2.0	1.2	-0.7*	0.0**	1.0	3.7
Inflation	2.5	4.1	0.0	1.2	3.4	2.8	1.5	1.0	0.4	1.0
Unemployment rate	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.0	9.0
Private consumption growth	3.5	2.1	-2.7	3.1	2.9	0.3	-0.6*	-0.4**	-0.3	0.4

Source: Statistics Finland, Nordea

*Estimate
**Forecast

The most competitive national economies in 2015 (ranking in 2014)



Source: World Economic Forum

by the unfavourable development of production costs after the financial crisis. The productivity in almost all Finnish industrial sectors has decreased significantly, thus weakening the position of Finnish companies in comparison with their international competitors.

"Weak short-term price competitiveness is one of the biggest challenges"

Helsinki typically ranks well in reports comparing the quality of living in various capitals around the world. The position of Helsinki is enhanced by overall security, well-functioning infrastructure, healthcare, education and an active cultural scene. Characteristics weakening Helsinki's position include climate conditions and high level of taxation.

Finland is widely known as one of the least corrupt countries in the world. Transparency International's *Global Corruption Perceptions Index* for 2014 ranked Finland in third place, after Denmark and New Zealand. The report identified strong access to information systems, rules governing the behaviour of those in public positions, as well as transparency of institutions as the factors differentiating the winners from other countries.

"Finland continues ranking well in competitiveness reports"

In the OECD Better Life Index, Finland performs better than the OECD average in all dimensions. Income inequality

is among the lowest in the OECD, and this contributes to Finland's high level of subjective well-being, personal security, civic engagement and social connections. Education is excellent, and environmental quality is regarded as very high. Jobs and earnings are close to the OECD average, and the work-life balance is good.

These rankings illustrate Finland's reputation as a respected Nordic welfare economy where political and economical stability, transparent regulatory framework, and high-quality education and healthcare provide favourable support for 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. Also, high tax rates and restrictive labour regulations are commonly regarded as weaknesses of Finland.

"Income equality is among the highest in the OECD"

The Finnish property market is regarded as one of the most transparent in the world. JLL's Global Real Estate Transparency Index, published in 2014, ranked Finland 9th among the 102 markets worldwide. Finland has consolidated its position among the "highly transparent" markets in this ranking.

In the Pricewaterhouse Cooper's and Urban Land Institute's report *Emerging Trends in Real Estate Europe 2015*, Helsinki reached 17th place among European main cities, having been in 15th place in 2014. Helsinki represents a good middle class in this comparison, and shows "fair" prospects for both investment and development. The report emphasises the population growth in the Helsinki metropolitan area, which strengthens the position of residential property investments. The outlook for offices is regarded as stable, whereas the retail markets are expected to suffer from weak consumer spending.

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

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

In mutual real estate companies, rental agreements are made between the shareholder and tenant, and the rental cash flow goes directly to the shareholder. Shareholders can use their shares in the company as collateral for their 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, the basis of which is defined in the company articles of association. This fee is most typically based on the floor area designated for each shareholder. The division of these responsibilities between the company and its shareholders may be specified in the company's articles.

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

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

Impact on market practices

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

The decision-making and management procedures of a mutual real estate company are defined in the company's articles, which have to fulfil certain requirements set by law. An individual owner's degree of control depends on their share of ownership, unless otherwise agreed in the company by-laws. Sometimes, for instance, the by-laws assign different rights and responsibilities for the owners of residential vs commercial premises.

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

Legislation concerning renting and transactions

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

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

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

2.2 Market practices of property investment and renting

Property investment

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

The role of the advisor or property agent in the investment process varies depending on the situation,

characteristics of the asset and type of companies involved. In large portfolio transactions, the parties typically use extensive advisory and corporate finance expertise, and implement thorough due diligence procedures. In single asset transactions, newly developed assets and transactions carried out between two domestic parties, the advisor's role is typically more limited.

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

The development of investment processes as well as the advisors' role is also dependent on market cycles. In the current market conditions, prime properties attract investors, and the advisor's role concentrates on managing the process. In secondary properties, transaction processes are typically long, and the advisor's role is more demanding in interconnecting the seller's and buyer's needs.

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.

"Indefinite lease terms
are typical in the
Finnish office markets"



Photo: SRV

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, but are also widely used in other property types. The landlord must, however, have an acceptable cause to terminate the contract. Rent adjustment, tenant mix changes, or rearrangement of the property portfolio are among the conditions used to justify lease termination. In KTI's rental database, measured by the number of agreements, about two thirds of all office agreements are indefinite. Measured by total space area, their share is 50%.

Indefinite leases often last for long periods, as both parties typically tolerate temporary fluctuations in the market. This means that at the peak of the market, tenants might pay less than the current rental value, whereas in the downturn they pay more. For its part, the landlord wants to avoid periodic vacancy and the cost of searching for a new tenant. In turn, tenants are not willing to pay the cost of searching for new premises and the costs of moving.

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

For larger units, longer fixed-term agreements are commonly applied. For a purpose-built, single-tenant office building, a net lease of ten years or more is common. Agreements in large single-tenant buildings in, for example,

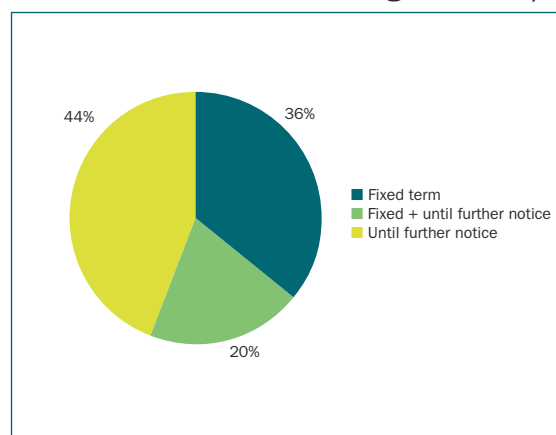
sale-and-leaseback arrangements, often have lease terms of up to 20 years. The popularity and terms of this kind of agreement are, from the tenant's viewpoint, driven by both financial and property market conditions. In recent years, several Finnish corporations have executed sale-and-leaseback transactions in order to free capital for their core businesses' use, and more than €5 billion worth of properties have been transferred from corporate users to professional investors.

Tenants' rights are quite limited in the commercial property market – for example, a tenant has no statutory right to a lease renewal. There are, however, a variety of different options that are exercised.

Traditionally, rental agreements are for “gross rent”, which includes net rent plus a service charge covering typical operating costs and minor repairs.¹ Gross rents are very common in multi-tenant buildings in all property types. Measured by number of agreements, some 80% of office agreements in the KTI rental database are for gross rent. In some specific property types, such as business parks, the lease agreements typically include a varying amount of business services offered to tenants. In these cases, the total rent includes the base (net) rent as well as a separate service charge.

In some cases, the landlord recharges the maintenance cost separately to the tenant. This kind of agreement is typically called a “shared rent”. These kinds of agreements are becoming more popular as the basic form of “green leases”, as they attempt to share the benefits and risks of, among other things, energy cost fairly between the tenant and the landlord, as well as to motivate both parties towards energy savings.

Distribution of office lease agreements, sqm



Source: KTI Rental database

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

"Rental practices are varied in the Finnish commercial property market"

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.

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

Turnover-based rents are commonly used in shopping centres, and they usually consist of a minimum base rent supplemented by an agreed share of turnover. However, the turnover-based part of the rent is typically quite low, as the landlord wants to secure a stable base for their cash-flow.

In market downturns and over-supply situations, various means to attract tenants can be applied. This has been clearly seen, for instance, in the Helsinki metropolitan area office markets in recent years, when increase in supply has coincided with weakening demand. Rather than decreasing the rent levels, landlords tend to offer rent-free periods, stepped rent increases and tenant improvements, among other things. In the current tight market conditions, investors use various means to retain their tenants, and lease terms can be renegotiated even well before lease termination.

2.3 Planning

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

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, and confirmed by the Ministry of the Environment. 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. ELY Centres, who are the regional representatives of state authorities, promote and steer the planning of land use by municipalities and the arrangement of construction functions. They participate in the preparation of regional land use plans, steer and supervise local master plans and local detailed plans in municipalities, and decide on, for instance, exceptional permits for coastal construction. It is also possible to agree on joint master plans between municipalities forming a homogenous urban area. These joint master plans require the approval of the Ministry of the Environment. Together with the increased cooperation

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)



Photo: SKV

and integration of the municipalities, these kinds of plans are becoming more common.

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

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

Some recent discussion around planning and building permit practices criticises the current regulatory framework for its lack of a holistic approach to sustainability and urban structure issues, among other things. Municipalities compete with each other by using planning and land use issues to attract taxpayers – both companies and residents – and employers, which can sometimes impact planning decisions. Land use and planning issues are one of the most critical topics discussed with regard to the planned reform in the municipal structure, especially in the Helsinki metropolitan area.

One specific land use issue is regional control and coordination over the plans and building permits for large retail units. The legislation emphasises city centres' position as a preferred location for retail units. Outside the city centres, large retail units can only be developed in locations with good public traffic connections. In the legislation, the concept of "large" is defined at 2,000 sqm for units with local coverage area. Location of these units can be included in the local master plan. For retail units with regional coverage

area, the definition of "large" can be defined in the regional plan, and has been set between 5,000 and 10,000 sqm in different regions. Possible locations for these units need to be included in the regional plan. Some changes to the Land Use and Building Act were introduced in late 2014. The main changes aim at enhancing competition in residential and retail construction. The changes also encourage the municipalities to conduct active land policy by emphasising the municipalities' responsibilities to manage their land use to support the development of the urban structure.

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. Payments to the local communities of the Evangelical-Lutheran and Orthodox Churches are not classified as taxes in the OECD's statistics.

The bulk of taxation in Finland is derived from two categories: taxes on income, profits and capital gains on one hand, and taxes on goods and services on the other. In 2013, income taxes accounted for almost 35% of the total tax revenue. The share of taxes based on consumption amounted to 33%.

Individual taxpayer income is divided into two categories: earned income and capital income. Income tax is paid to the state at a progressive rate and to the municipalities at a flat tax rate. Capital income tax is levied on, for example, interests, rental income, dividend, and sales profits. Capital gains tax rate currently stands at 30%. For capital income exceeding 30,000 euros, the tax rate increased to 33% in 2015.

In Finland, resident individuals are taxed on their worldwide income. Residents are taxed according to progressive tax rates for national tax purposes and flat rates for municipal ones.² The highest state tax rate is 31.75% of earned income. Municipal tax rates for 2015 vary between 16.5% and 22.5%.

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

The level of taxation is clearly above the average for OECD countries. The Finnish ratio of total taxes to GDP in 2014 was 44.5%. In the EU 15 countries, the average stands at 38.9%, and in the OECD, at 34.1%.

The recent years' economic downturn and the resulting public deficit have forced the Finnish government to tighten the taxation further. Therefore, the structure of taxation is one of the most vividly discussed issues on the political agenda. In the beginning of 2015, taxation of highest income categories was tightened, as well as taxation of capital income. Also the deductions of, for example, interest and travel expenses were decreased.

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

Tax on real property

Real property situated in Finland is subject to a real property tax that is based on the taxable value of the property. The taxable value is defined by local tax authorities and is generally about 70% of the market value of the property. The revenue goes to the municipality where the real property is situated. Land used in forestry or agriculture is exempt from real property tax.

Minimum and maximum tax rates are regulated by the parliament, and municipalities decide the rates within this range. In the beginning of 2015, the minimum tax rate was increased to 0.8% and maximum to 1.55% of the taxable value per annum. Tax rates for permanent residences were increased to between 0.37% and 0.8%.

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

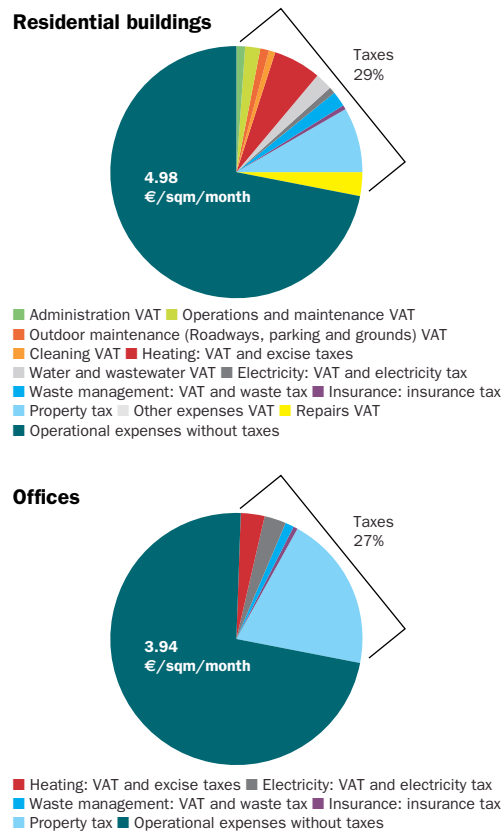
Taxes represent almost 30% of the annual operational costs of a residential property

In total, some 28-30% of the annual operational costs of a rental residential property are different kinds of taxes. Value added tax, which is not deductible from rental income in residential buildings, represent some 17% of the total annual costs. VAT is included in almost all services included in the operational costs. In addition to VAT, property tax represents some 7-8%, and energy taxes 4% of the total costs. When taxes included in the service charges – for example, income taxes of service personnel, as well as corporate taxes – are taken into account, the share of taxes amounts to some 41% of the annual operational costs.

In office properties, property tax's share of total annual costs amount to some 20%. In addition to the property tax, energy taxes represent a significant share, some 6% of the total costs. As value added tax included in the services is typically deductible from that of rental income in commercial properties, the total share of taxes is somewhat lower in office buildings than in residential buildings, representing typically some 25-28% of the total costs.

Property owners' taxes have increased markedly since 2000. Depending on the municipality, total amount of taxes has increased by some 80-90%, while the overall cost-of-living index has risen by 26% within the same period. The increase in taxes is caused by both increase in overall operational costs, as well as by increased tax rates.

Taxes on operational expenses, offices and residential rental buildings in Helsinki, 2013



Source: KTI

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

Capital gains taxes

Tax on investment income (interest, net rental income and capital gains) currently stands at 30%. Capital income exceeding €30,000 will be taxed at 33%. Financial costs, such as interest expenses that are directly related to the investment income, are deductible. Capital loss made on investment is deductible from capital gains in the year of the loss, or, if not possible in that year, during five following years.

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

Taxation of dividend income was changed in the beginning of 2014. Dividend income is partially double-taxed in Finland. The tax consequences depend on the type of company that pays the dividend – whether it is publicly listed or not – and also, for non-listed companies, on the net assets of the company.

Transfer taxes

Tax on the transfer of real property is 4% of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company is 2.0% of the transfer price.³ The tax base currently covers the total transaction price, having previously been levied on the net sales price (total price deducted by potential debt of the mutual real estate company).

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

Transfer tax is usually imposed on the purchaser.

Corporate taxation

Income-tax obligations of a company or organisation are largely determined by the form of corporate entity. In the case of limited companies and cooperative societies, the profits are taxed as income attributable to the entity itself. Corporate income tax rate was decreased from 24.5% to 20% in the beginning of 2014.

According to the new legislation for the taxation of dividends, shareholders of a limited liability company will be taxed as provided by specific rules, depending on, for instance, the tax status of the shareholder-beneficiary and whether the company is publicly listed or not. In a non-listed company, the taxation of dividends is also dependent on the mathematical value of the company. Of the dividend income

Photo: NCC / Erik Mårtensson



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.

from listed company, 15% is tax-free, and 85% is taxed as capital income at a 30% / 33% tax rate. Of the dividends from a non-listed company, 25% are taxed as capital income. 75% of the dividends are tax-free, provided that the amount of dividend does not exceed the level of 8% return calculated on the mathematical value of the shares. If the dividends exceed this 8% threshold, 75% of the exceeding amount is taxed according to the progressive income tax rate. For dividends exceeding 150,000 euros, 85% are taxed as capital income even though the 8% limit is not exceeded.

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

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

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

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

Taxation of partnership structures

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

"Real estate funds are typically structured as limited partnerships"

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

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

Value added tax

Value added tax (VAT) is another tax that is relevant for property investment. The standard VAT rate currently stands at 24%. VAT is calculated on the total charge for goods and services. There are some lower VAT rates for 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 entitling to a deduction decreases or if the ownership of the property is transferred within a set revision period. In some circumstances, an increase of taxable use could also lead to a revision that is proportionate to the lapse of time. This means that the full amount of deducted VAT will not be subject to revision but only a decreased amount in accordance with and proportionate to the time lapsed under the revision period. The revision period has also been extended from a five-year period to a ten-year period.

"Value added tax issues are of great importance in leasing premises"

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

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

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

Central tax rates in Finland

	Tax rate	Note
Corporate tax rate	20 %	Tax rate decreased in 2014.
Capital gains tax rate	30 % (33 % on income exceeding €30,000)	Levied on profits from selling real property, buildings, securities such as housing company shares, shares in listed companies, etc.
VAT	24 %	Special rates for food, restaurant and catering services (14 %); medicine, books, transportation, cultural events, etc. (10 %); and newspapers and periodicals (0 %).
Tax on real property	0.8–1.55 % 0.37–0.8 % (residential property)	Depends on municipality and type of property. Taxable value defined separately for the building and the land.
Transfer tax, real property	4 %	The majority of transactions are carried out by selling the shares of a (mutual) limited real-estate company.
Transfer tax, shares of mutual real estate companies	2.0 %	Tax rate was increased on 1 March 2013. 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



Photo: SATO

2.5 Legislation for indirect property investment

Property funds

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

The Finnish legislation also enables the establishment of special investment funds that invest in property. These special investment funds are stipulated by the Finnish Common Funds Act (in Finnish, *sijoitusrahastolaki*) and are regulated by the Finnish Financial Supervisory Authorities. These funds are open-ended structures managed by a separate fund management company. Provisions for investments in and redemptions from these funds are stipulated in the fund rules. The rules may include limitations on the redemption and subscription frequency, and relatively long redemption periods may be applied. The long-term gearing level of these funds is restricted to 50% of the total value of the fund. These funds are not taxable entities and are considered as fully transparent for Finnish tax purposes. Although the legislation for these funds has existed for several years, the first fund under this framework was only launched in late 2012 by Finnreit Fund Management Company Ltd. During 2013 and 2014, several more funds with varying strategies were launched. All these funds are also offered to private investors.

"Several semi open-ended property funds offered to various investor groups"

Property companies

In the Finnish context, the majority of property companies operate in the form of limited liability companies. They are regulated by the Limited Liability Companies Act and are taxed as normal companies. There are currently three significant property companies listed in the Nasdaq OMX Helsinki exchange: Sponda Plc, Citycon Plc and Technopolis Plc. A limited liability structure is also widely used in non-listed companies investing in real estate.

Alternative Investment Fund Management directive was implemented in 2014

The national implementation of the AIFM directive came into force in Finland in March 2014. Fund managers covered by the regulation had to apply for authorization or registration from the Financial Supervisory Authority by the end of July.

AIFM is applied to all fund managers who offer private equity, real estate, commodity and hedge fund investment and other corresponding mutual investment activities to professional investors. By late 2014, 24 applications for authorization had been issued to the Financial Supervisory Authority, and of these, 10 have been granted, with the rest still being processed by the authorities. Almost 60 applications for registration have been issued, and the majority of these were private equity and real estate fund managers.

The regulation requires that alternative investment fund managers regularly provide information for supervisory purposes both on themselves and on the alternative investment funds that they manage. Reporting procedures for fund managers covered by the directive are currently being developed. The purpose of the AIFMD reporting is to effectively monitor and prevent systemic risk and disorderly markets. The reporting obligation applies to registered and authorised fund managers. At the beginning of 2015, the reporting application is being tested by the authorities. The reporting comprises, for example, basic information on the fund manager and funds it manages, risk profile and risk concentration of the funds, as well as leverage used in the funds.

"There is only one tax-exempt property company investing in residential properties"

The possibility for tax-exempt listed property companies, the structure resembling internationally known REIT-structures, has currently been given only for companies investing in rental residential properties. The provisions for tax transparency for this kind of companies require the companies to invest only in rental residential properties, to limit its debt capital to a maximum of 80% of the balance sheet, to pay out 90% of the profit as dividends, and to comply with strict accounting rules. The company needs to be listed within three years of its foundation. There is currently only one company operating under this regulatory framework. This fund, Orava Residential Real Estate Investment Trust Plc, was listed in the Nasdaq OMX Helsinki in 2013. Due to the limiting provisions set by the legislation, the volume of this kind of vehicle is not expected to become significant.

3 Structure and players in the Finnish property market

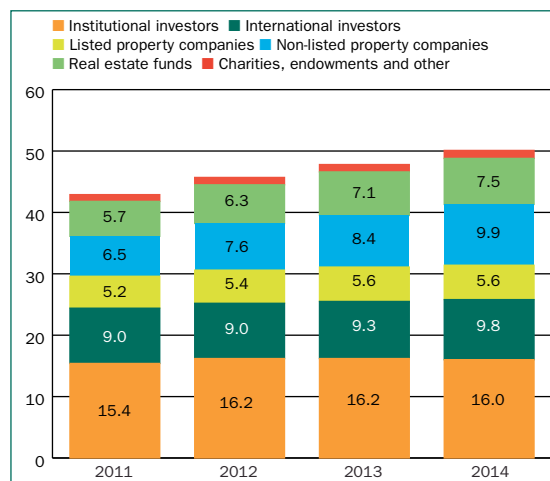
3.1 Ownership structure

At the end of 2014, the size of the Finnish professional property investment market amounted to some €50 billion. Compared to 2013, this represents a change of 2 billion euros. The increase in the market size was a result of both newly developed properties in investors' portfolios as well as some corporations' sale-and-leaseback transactions.

The total value of the Finnish property stock is estimated to be around €480 billion (including sites). Of this, some 70% consists of residential properties. The majority – some two thirds – of residential dwellings are owner-occupied. In the investment market, rental residential dwellings represent a share of around 29%, and their share has increased in recent years. Of the commercial properties, offices and retail properties are the biggest sectors in the investment markets with shares of 30 and 25%, respectively.

In the property investment market, institutional investors – domestic pension funds in particular – remain the most significant players, who through their direct holdings represent some 32% of the total investment universe. Their share has, however, decreased during the past couple of years as a result of the emergence of new players and institutions' increasing allocation to foreign and indirect property investments.

The structure of the Finnish property investment market, EUR bn



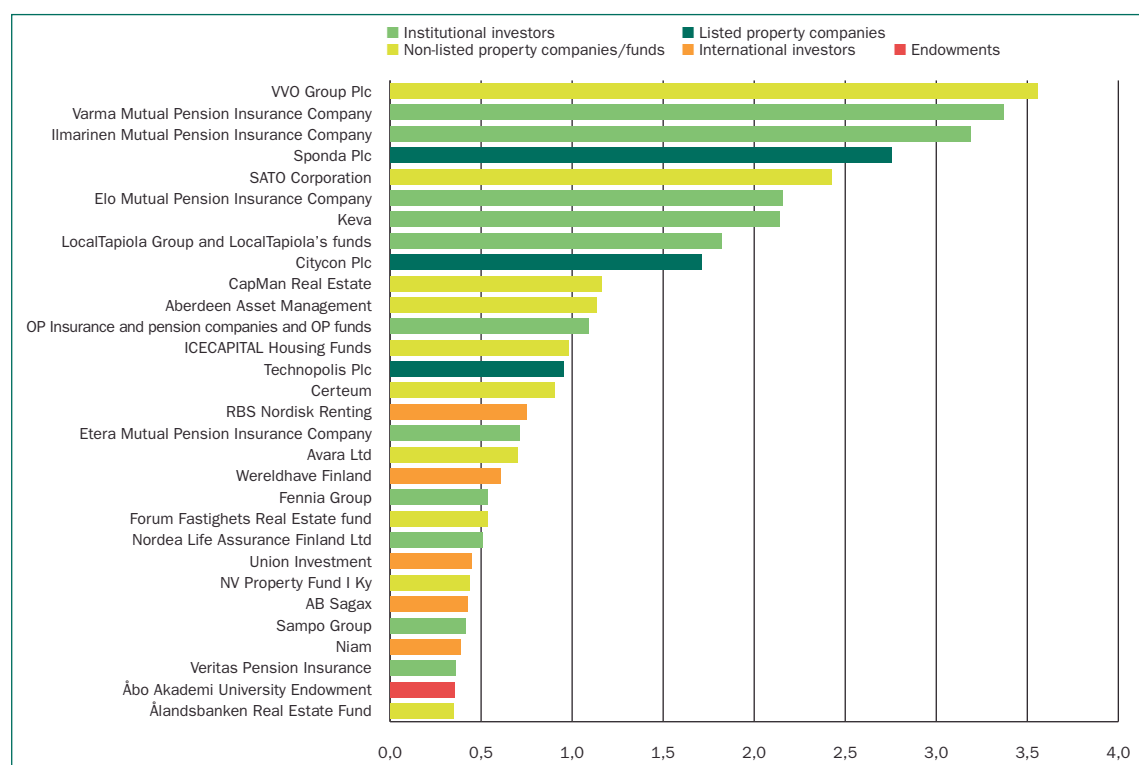
Source: KTI

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.

The total value of the investments of pension insurance companies and funds administering the statutory occupational pension schemes amounted to some €172 billion at the end of the third quarter of 2014, according to the Finnish Pension Alliance TELA. This represents a growth of some €9.5 billion compared to the end of 2013.

Direct property holdings of the 30 biggest property investors in Finland fair values of the properties at the end of 2014, EUR billion



Source: KTI (query for investors)

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

The reserves collected in the past from employers and employees 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 almost equal to the amount of annual contributions. The increase in pension funds' investment assets is thus currently primarily based on returns on existing investments.

"The Finnish pension funds' total investment assets amount to €172 billion"

Calculations on the long-term pension money flows are based on the assumption of a 3.5% annual real return on investments. According to TELA, the real return on private sector pension institutions' investments has amounted to 4.0% per annum on average in the past 15 years.

Photo: NCC / Erik Mårtensson



Finnish public sector pension institutions operate under a different solvency framework as private sector institutions, and thus have different investment strategies and allocations. They typically have a larger equity exposure, resulting as slightly higher investment returns. In the past 15 years, their returns have amounted to 4.4%.

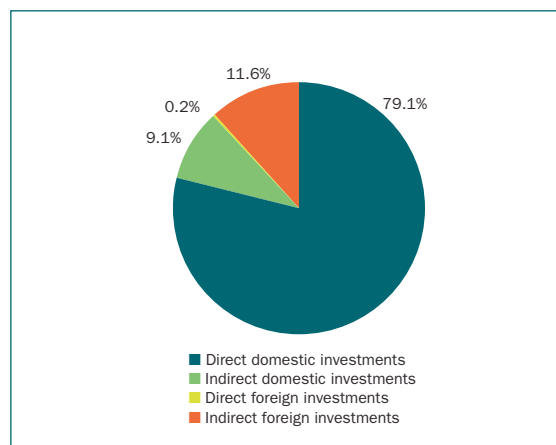
Pension insurance companies are the biggest players in the private pension sector. There are currently five major companies: Varma, Ilmarinen, Elo, Etera and Veritas. In the public sector there are two major pension funds, Keva and State Pension Fund. In addition, there are several smaller company or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

At the end of the third quarter of 2014, 48% of the pension institutions' assets were invested in listed shares or other equity investments. Some 42% of the assets were invested in bonds and money market instruments.

The share of property investments in the Finnish pension institutions' portfolios was 9.9%, amounting to €17.1 billion at the end of third quarter of 2014 (€17.0 billion at the end of 2013). Their share decreased slightly during 2014, having stood at 10.5% at the end of 2013. Real estate investments' proportion of the total investment varies markedly between funds.

The vast majority of all pension institutions' property investments are in Finland. At the end of 2014, the amount of foreign property investments amounted to €2.7 billion (€2.4 billion at the end of 2013), which increased foreign investment's share of all property investments to some 15%. The majority of foreign investments are invested through non-listed property funds within the euro area. Pension funds have only recently started to invest abroad through other vehicles, including co-investments and joint ventures, mainly in other Nordic countries.

Real estate exposure of the Finnish institutions



Source: KTI (query for investors)

"The vast majority of pension institutions' property holdings are direct domestic investments"

Varma and Ilmarinen are the two biggest pension insurance companies in private sector, with total investment portfolios of €40 and €34.2 billion, respectively. Both are also major property investors. Varma is currently the second biggest property investor in Finland with a direct domestic portfolio of some €3.4 billion. Varma has continued transferring its property investments into indirect structures by selling assets to property funds and companies, and at the same time has increased its investments abroad. In 2014, together with listed property company Sponda, Varma was part of the Finnish market's biggest transaction, where a €900 million new logistics investment company Certum was established. Varma also sold 50% of its holdings of residential investment company SATO to the Dutch APG. In early 2015, Varma published a major joint venture investment to Skärholmen shopping centre in Stockholm together with Grosvenor's fund. As a result, Varma fell to second place in the ranking of the biggest property owners in Finland, after having been the biggest direct investor for several years.

"Property investment strategies are being reconsidered"

Ilmarinen has also continued pursuing the strategy to increase their allocation into foreign real estate investments. They also made some major investments in Finland, for instance, in the new REDI shopping centre in Helsinki. At the end of the year, their property holdings amounted to €3.7 billion, representing some 10.8% of their total investment portfolio. Of their property investments, some €3.2 billion are direct domestic investments.

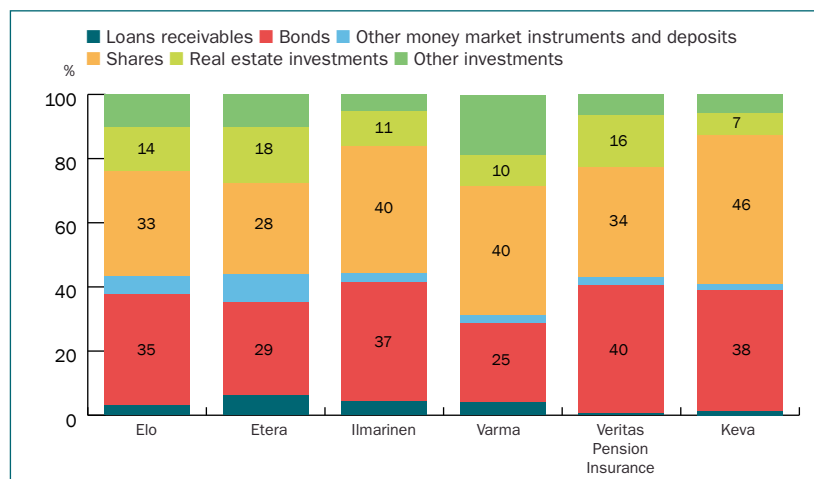
Pension insurance company Elo, which was established in the beginning of 2014 through the merger of LocalTapiola pension fund and Pension Fennia, has a total investment portfolio of some €19.6 billion. Its direct property holdings amount to almost €2.2 billion.

The biggest player in the pension sector is Keva, which handles the pension matters of persons employed in the state and local governments and the Evangelical Lutheran Church of Finland. At the end of 2014, Keva's investment portfolio amounted to €41.5 billion, of which some 6.8% is invested in property. Also Keva has recently started to investigate joint venture property investments abroad, primarily in other Nordic countries.

"Finnish institutions are increasing their allocations to foreign property investments"

In most pension institutions, direct investments clearly dominate the property portfolios. The share of indirect investments varies markedly between funds. Of the large institutions, the only one that focuses solely on indirect property investments is The State Pension Fund, whose property investments amounted to some €560 million at the

Investment portfolios of pension insurance companies



Source: The Finnish Pension Alliance TELA

end of 2014. In the biggest institutions' property portfolios, the share of indirect investment varies between 12 and 30%. Indirect investments are made both in Finland and abroad.

Pension insurance companies also have exposure to property through the ownership of shares of both listed and non-listed property companies. They are, for instance, major shareholders in the biggest residential property investment companies, VVO, SATO and Avara. Some of them have also reorganised their formerly direct holdings to indirect vehicles. Pension institutions are major investors in most domestic property funds.

"Indirect investments represent some 21% of the Finnish institutions' property portfolios"

Finnish legislation requires that investment decisions be made by institutions themselves, and thus portfolio management functions are kept in-house. In the organisation of property and asset management functions, differing strategies are pursued. Many institutions want to retain control on their tenant interface in particular, and have thus increased their emphasis on in-house asset management. Property management is most often outsourced to service providers. Some of the main institutions, for instance, OP-Pohjola and

LocalTapiola groups, have founded separate management companies to manage their property investment portfolios. These companies have also launched unlisted property funds, where their major clients are main investors.

Finnish pension funds are not typically allowed to use leverage in their investments. In 2014, however, a new temporary legislation was introduced, whereby pension insurance companies can leverage their residential property investments up to 50% within the next three years. The purpose of this legislation is to enhance the supply of rental residential property in the main cities.

The Finnish pension institutions' returns on their investment portfolios varied between 6.2% and 8.7% in 2014. The level of returns was mainly dependent on the funds' allocation to listed equities, which continued performing well. Therefore, public sector pension institutions outperformed pension insurance companies in 2014. Reported returns on property investments varied from 3.8% to 10.3% with indirect investments clearly outperforming direct property investments.

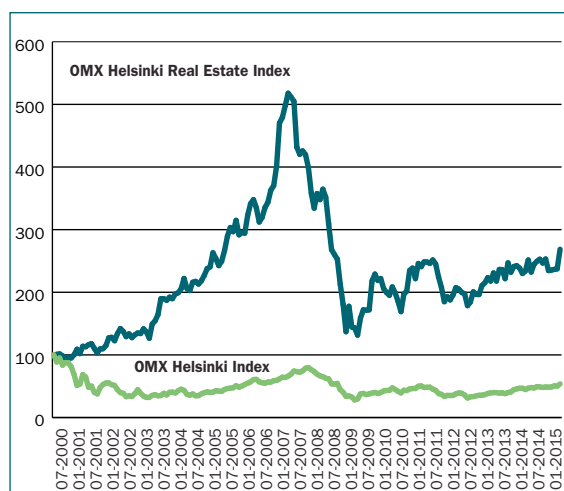
Listed property sector

There are three recognised property companies listed on the main list of the OMX Nordic Exchange in Helsinki: Citycon, Sponda and Technopolis. At the end of 2014, the combined market value of these three companies stood at around €3 billion, showing an increase of some 15% compared to the previous year. In addition, the market value of the Orava Residential Real Estate Investment Trust stood at some €53 million.

In 2014, the OMX Real Estate Sector index increased by 5.75%. The performance of real estate companies was clearly lower than that of the overall equity market performance, which stood at 10.74%.

Share performance of Finnish listed property companies

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



Source: Nasdaq OMX



Photo: NCC / Mikael Lindén

At year-end 2014, Sponda's property portfolio amounted to €3.2 billion (€3.4 billion at the end of 2013). According to the company's current strategy, the company focuses on office properties and shopping centres in Helsinki and Tampere regions, and thus, the company aims at selling its holdings in Russia within the next 2-4 years. In 2014, Sponda divested its property fund business as well as most of its logistics properties to the newly established Certeum. Sponda remained as shareholder in Certeum, but it has published that they are interested in selling the company's shares in the near future.

"Sponda pursued its strategy through divesting property fund business and logistics portfolio"

Citycon owns and manages shopping centres and retail properties in Finland, Sweden, Denmark, Estonia and Lithuania. At the end of 2014, it had a portfolio of some €3.0 billion, including company's share in Kista Galleria in Sweden). Of the 36 shopping centres, 21 are located in Finland. During 2014, Citycon acquired the whole ownership of Iso Omena shopping centre in Espoo, having previously had GIC as a co-investor. In early 2015, the company published the €75 million acquisition of a new shopping centre Straedet in the Copenhagen area. The centre will be completed in 2017.

Technopolis specialises in leasing space and providing business support services related to facilities management mainly for start-up and growth companies. Technopolis currently owns 20 campuses in Finland, Estonia, Russia, Lithuania and Norway. The company's property portfolio totaled around €1.4 billion at the end of 2014 (€1.4 billion in 2013). After having expanded markedly in 2013, the company's investments decreased in 2014, with the start of another phase of the existing campus at the Helsinki-Vantaa airport being the most significant project in 2014.

Orava Residential Real Estate Investment Trust is the first fund operating under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. The company was listed in late 2013, and at the end of 2014, the fair value of the company's portfolio stood at €131 million (€79.2 million at the end of 2013).

Non-listed property companies

There are three major non-listed property companies investing in residential properties: VVO, SATO and Avara, each of which holds significant subsidised residential portfolios as well as major market portfolios.

"Residential property companies continue increasing their portfolios"

Photo: SRV



VVO's portfolio consists of more than 40,000 rental residential apartments in 42 locations. At the end of 2014, the fair value of VVO's property portfolio amounted to €3.6 billion (€3.4 billion at the end of 2013), and it rose to first place in the ranking of the biggest property investors in Finland. Finland's two largest pension insurance companies, Varma and Ilmarinen, are VVO's largest owners. VVO's shareholders also include some major Finnish labour market organisations. The company owns a significant subsidised portfolio, but is currently focusing its new investments solely on non-subsidised stock. In 2014, the company introduced its new housing brand Lumo.

SATO's current holdings comprise more than 24,000 apartments, and the market value of the company's portfolio stood at about €2.5 billion at the end of 2014 (€2.3 billion in 2013). Some 80% of the portfolio is located in the Helsinki metropolitan area. The company also has 313 completed dwellings and 217 dwellings under construction in St Petersburg. In 2014, the company announced that it will discontinue new investments in Russia until the economic situation in the country improves. In 2014, the Dutch pension fund APG acquired 22.8% of SATO's shares from pension insurance company Varma, who, after the transaction, also owns 22.8% of the company. Other major owners include Ilmarinen and the LocalTapiola Group.

Avara Oy currently owns and manages about 7,500 rental apartments mainly concentrated in the larger cities. Avara's shareholders are major Finnish institutions, with the pension insurance company Elo being the biggest shareholder in the company.

"Certeum is a newly established property company investing in logistics properties"

Certeum Ltd is the biggest non-listed property company investing in commercial properties. The company was established in 2014, when pension insurance company Varma, listed company Sponda and investors in Sponda's funds founded the company and sold it a logistics and industrial property portfolio worth more than €900 million. The founders remained as shareholders in the company.

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

Real estate fund management companies

The supply of non-listed property funds has increased significantly during the past couple of years. The first fund products were mainly targeted at domestic institutional investors. Currently there are also several funds offered to private investors. Finnish non-listed property funds targeted at institutions are typically structured as limited partnerships, which from a taxation point of view is a favourable structure for domestic institutions.

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

There are currently some 20 Finnish real estate fund management companies, managing almost 50 funds. Finnish property fund management companies have diverse backgrounds, which also affects their strategies significantly. CapMan, which currently manages one Nordic and three Finnish property funds, is originally a Finnish private equity company for whom property investment is one of the business areas. Aberdeen Asset Management, which manages three Finnish funds, is a global investment management company. Pohjola and LocalTapiola are traditional Finnish institutional investors that have organised their property investment management in separate companies. These companies have also expanded into the fund management business, offering funds to their shareholders and other investors. LocalTapiola has launched five property funds organised as limited partnerships. Pohjola's four domestic funds include one special investment fund and three limited partnerships.

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

ICECAPITAL and Auratum are examples of Finnish investment banking companies that currently offer property funds for their clients as one alternative asset class. ICECAPITAL's real estate funds are specialised in residential investment. Auratum's funds are typically smallish, specialised niche funds that cater to client needs. Other investment management companies that have expanded to property include, for example, Taaleritehdas and Quorum.

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, NV Property Investment, VVT and AB Forum Capita. Exilion is a joint venture of four Finnish pension funds, and their fund has invested in office properties in the Helsinki metropolitan area. NV Property Investment and VVT Property Investment are clubs of some major institutions. Forum Capita manages the Forum shopping centre in Helsinki CBD.

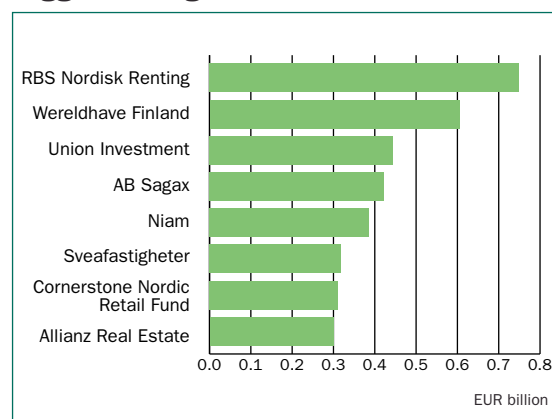
Trevian Asset Management, established in 2013, is a newcomer in the property fund management market. The company manages funds investing in, for example, retail and healthcare properties. They also offer asset management services to some foreign investors.

Sirius Capital Partners is a newly established company in the fund and investment management sector. The company was founded by the former Finnish team of the Swedish Sveafastigheter. The company makes co-investments on a deal-by-deal basis, as well as funds or club deals for global and domestic institutions, multi managers and real estate funds. The company made its first transaction in February 2015 by acquiring a €25 million grocery store portfolio with the US Accord Group Holdings LLC as co-investor.

"Property funds
continue expanding
their portfolios"

In the emerging mutual property fund sector, the most significant managers include eQ Bank, Ålandsbanken, Pohjola Property Investment, and as the most recent example, the insurance company Fennia. eQ Health Care, established in 2012, was the first special property investment fund in Finland, and it currently has some €150 million of equity. At the end of 2014, the company launched its second fund,

Biggest foreign investors in Finland



Source: KTI (query for investors)

eQ Finnish Real Estate, which invests in retail and office properties. Ålandsbanken's residential fund has continued increasing its portfolio of new residential dwellings in major cities. OP Rental Yield invests in both commercial and residential properties. Fennica Properties I, established at the end of 2013, continued expanding its portfolio during 2014, and currently holds 12 properties with a combined worth of €115 million (September 2014).

International investors

Foreign investors currently account for some 20% of the total Finnish property investment market. The total holdings of foreign investors amounted to some €9.8 billion at the end of 2014.

Foreign investors form a diversified group of players with varying strategies and management practices. Some of them have established their own offices in Finland (for instance, Sagax, Wereldhave, IVC, Genesta, Niam and Cornerstone), while some other operate through their Nordic offices and / or local asset managers.

Largest transactions by foreign investors in Finland in 2014

PROPERTY / PORTFOLIO	DATE	PRICE (M€)	PURCHASER	SELLER
Retail and Sisu portfolios	2014Q2-Q3	~240	Partners Group	Niam, Whitehall Streets Real Estate Funds
Sanoma House office property	2014Q1	176	Deka Immobilien Investment GmbH	Sanoma
Portfolio of 68 grocery stores	2014Q2	124	Trophie Fastighets AB (Redito)	Sveafastigheter Fund III, Capitol Asset Management
Portfolio of 123 retail properties	2014Q4	107	A joint venture between Trevian Asset Management and H.I.G. Capital	AXA Real Estate Investment Managers
Portfolio of 15 care properties	2014Q1	~100	Hemsö Samhällsfastigheter Finland Oy	Trevian Care I Ky (Trevian Asset Management)
Eight retail properties	2014Q2	66	Fastighets AB Balder	Glitnir Bank Luxembourg SA
Two industrial and office properties	2014Q1	65	AB Sagax	Sanoma
Office property, Keilalahdentie 2-4	2014Q4	64.8	AXA Real Estate Investment Managers	Exilion Real Estate I Ky
Brondankulma office property	2014Q4	60	AFIAA	CBRE Nordic Property Fund

Source: KTI

The biggest foreign investor in Finland, with a total portfolio of around €750 million, is RBS Nordisk Renting, who has mainly invested in sale-and-leaseback type of assets with long triple-net lease agreements. Other significant investors include the Dutch listed company Wereldhave and Cornerstone's Nordic Retail Fund, both of which have major shopping centre assets in their portfolio. The Swedish Sagax and German Union Investment increased their Finnish portfolios in 2014, both portfolios currently amounting to over €400 million. Swedish-originated fund managers Niam, Genesta and Sveafastigheter are also significant players in Finland.

"Foreign investors accounted for 35% of the total transactions volume in 2014"

In 2014, foreign investors' total investment volume amounted to about €1.48 billion, which was more than double the previous year's volume of €700 million. This represents some 35% of the total transactions volume.

In total, six new foreign players entered the Finnish market in 2014. The biggest newcomer was Partners Group, who acquired the so-called Sisu and retail portfolios from Niam and Whitehall in summer 2014. Other major new investors include the Swedish Balder, who acquired a retail portfolio worth some €66 million, as well as the Swiss AFIAA, who bought the Brondankulma office property from CBRE Global Investors for some €60 million.

The biggest single property acquisition was made by the German Deka Immobilien, who bought the Sanoma office building in Helsinki CBD for €176 million. AXA's funds made several new investments in Finland during 2014, the

biggest of which was the €65 million investment in one of the former Nokia buildings, currently occupied by Microsoft Mobile in Espoo. Also Niam made several new investments during 2014.

The Swedish companies Redito and Hemsö, who entered the Finnish market in 2013, continued their expansion in 2014. In January, Hemsö bought a €100 million portfolio of health care properties from Trevian's fund, and, also made some other new investments. Redito continued its expansion by buying two retail property portfolios. Both companies currently hold portfolios worth €100-200 million. The Swedish AP3 fund is the main investor in both these companies.

Public sector

Public sector entities are very important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also acts as an intermediary in lease agreements between state agencies and private sector property investors. Senate has a specific department for selling and redeveloping the properties no longer needed by state authorities. Senate is by far the largest property owner in Finland, with a property portfolio of some €4.5 billion. Its diversified 6.4 million sqm portfolio consists of offices used by state agencies and ministries, prisons and cultural buildings, as well as properties used by the Finnish Army. Senate operates under the control of the Ministry of Finance and is currently strengthening its strategy as the state's internal working environment expertise unit. The state has also started to pursue a new workplace strategy, which will aim at an ambitious increase in space efficiency, and would thus free significant amounts of space to be sold by Senate properties.

Photo: NCC / Erik Mårtensson



"The Finnish state is aiming at increasing space efficiency"

The majority of the Finnish university properties are currently owned by three limited companies, which were founded in 2010 for the sole purpose of owning and managing university buildings. Two of the companies own and manage university buildings in the Helsinki metropolitan area (Helsinki University Properties and Aalto University Properties), and one elsewhere in Finland (University Properties of Finland Ltd). Universities own a two-third's majority of the shares of these companies, with the state owning the remaining third.

Finnish municipalities are typically significant players in regional markets and 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. They typically own the vast majority of the premises they use. It is estimated that their property holdings amount to around €20 billion. Some municipalities, such as the City of Helsinki in particular, also have a significant amount of space that they let to private market players. In recent years, municipalities have started to apply more varying strategies in their property ownership, and, for example, at the end of 2014, the City of Turku sold a portfolio of five office properties, one restaurant and two lots to Turku Technology Properties.

All major municipalities have centralised their real estate management functions and tend to apply a market-oriented management policy; for instance, by charging internal rents from the occupiers. Municipalities' property ownership and management are facing considerable challenges due to the tight financial situation. In the future, potential significant changes in the municipal structure and/or service provision strategies will also have an impact on the need for and management of properties.

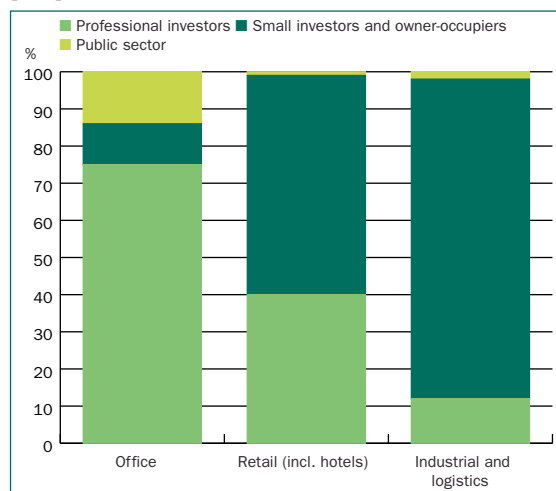
Most municipalities also own significant residential property portfolios through separate companies. These companies mainly own state-subsidised stock, the estimated value of which amounts to some €10 billion.

Corporations

Traditionally, property occupiers have played a significant role in the Finnish property market through their ownership of large property portfolios. The majority of commercial property stock has traditionally been owner-occupied. The proportion of owner-occupancy is currently estimated to be somewhere around 57% of all commercial properties. Owner-occupation is extremely common in the industrial sector (approx. 85%). In the retail property sector, the share of owner-occupancy has decreased markedly in recent years, and currently stands at some 60%. Measured by value, the vast majority of office properties are owned by investors.

Major Finnish corporations have adopted different strategies with regard to their real estate management. The broadening and development of the property investment and finance market has enabled the execution of these strategies.

Owner-occupation of commercial properties



Source: KTI



Photo: NCC/ Erik Mårtensson

During the past couple of years, several major Finnish corporations have sold their properties and, in many cases, the companies remained as tenants in these buildings through relatively long leases. Between 2006 and 2014, Finnish corporations sold more than €5 billion worth of properties, which, for its part, has increased the total size of the investment market. In 2014, the most significant sale-and-leaseback transactions were carried out by Sanoma Corporation, who sold its headquarters for €176 million, as well as some other properties to investors.

SOK and Kesko, the two major Finnish retail chains, are active players in the property market and emphasise the role of property development in their business strategy. They both hold significant property portfolios in their balance sheets, but rent premises from other investors as well. They are also significant landlords in the retail market.

Kesko has, over the years, sold significant amounts of property assets to investors. Kesko has published its intention to set up a new property company, with the intention to sell some €670 million worth of properties, where it would stay as a long-term tenant. The company aims to attract some other investors in the company. Kesko's intention is to establish the company during the first half of 2015. Also some co-operatives within S Group, HOK-Elanto in particular, has sold properties to investors in recent years.

"The share of owner-occupancy is decreasing in the commercial property market"

Industrial companies still typically own their production properties, but even they increasingly rent their headquarters and other office premises. Companies such as professional services, media and IT/telecommunication companies, which predominantly use office or light production space, are pursuing increasingly sophisticated workplace strategies, and typically rent their premises. The vast majority of new office buildings are thus currently being developed by investors or developers, while in the past, it was more common to develop them in the corporations' balance sheets.

3.2 Real estate service sector

Asset and property management services

The asset and property management services market is dominated by domestic and Nordic companies. The major Finnish asset and property management service companies include Ovenia, Corbel and Realia Management. The majority ownership of all these companies is currently held by private equity firms.

Ovenia Oy's clients include major Finnish and international investors, as well as corporations. Ovenia has expanded through company acquisitions in recent years by purchasing several specialist companies in, for example, the shopping centre and housing management sectors. Ovenia Group is organised in three divisions: commercial property management, residential property management and housing management.

Realia Group is, through its daughter companies, a major player in the residential property brokerage and management markets. 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.

Corbel Oy is another domestic asset and property management company. The company has recently expanded through new management deals with some major institutions and property companies.

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

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

Amplion Asset Management, part of Catella Group, is a boutique Nordic real estate investment and asset management company, which, for example, manages some loan servicer portfolios in Finland. Trevian Asset Management is an example of a domestic fund and asset management company.

Other domestic players servicing some institutional and foreign property investors in selected segments include Realco Oy, KJ-Kiinteistöjohto Oy and Kiinteistömanagement J. Juhola Oy. Facilities management services to occupiers are offered by both specialist management companies and traditional service companies that have expanded to offer the whole service chain. The largest service companies

with backgrounds in traditional service provision (such as cleaning, catering and maintenance) who also currently offer management services include ISS, Lassila & Tikanoja and SOL. Coor Service Management is an example of a company concentrating solely on services management.

Caverion Oyj, which was separated from construction company YIT in 2013, is a significant player in the property and technical management service market.

Advisory, valuation and transaction services

The advisory service market includes a colourful mixture of small domestic entrepreneurial firms and big global companies. Of the major management companies, Newsec and Realia Management also offer valuation, advisory and transaction services. Realia currently co-operates with Savills in valuation services.

Swedish-originated Catella Property Group offers valuation, advisory and brokerage services in the Finnish commercial property market. Of the major international firms, DTZ was among the first to enter the market, and has been present in the Finnish market since 2004. Jones Lang LaSalle entered the market in 2007 and has grown to become one of the major players in transactions, valuation, leasing consultancy and brokerage. CBRE established its own office in Helsinki in 2009, having previously been represented through collaboration agreements. It recently acquired the Finnish transactions advisory firm Finadvice Oy. The Swedish-originated advisor Leimdörfer also has an office in Finland.

"Real estate advisory services are widely available in Finland"

Cushman and Wakefield is represented in the market through a collaboration agreement with the local transaction and leasing service company Tuloskiinteistöt Oy. There are also a couple of smaller local transactions and valuation service firms servicing mainly domestic players. Of the local valuation firms, Peltola & Co serves some major investors. The former Swedish Tenzing's Finnish team continues business under the brand of mrec Oy.

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

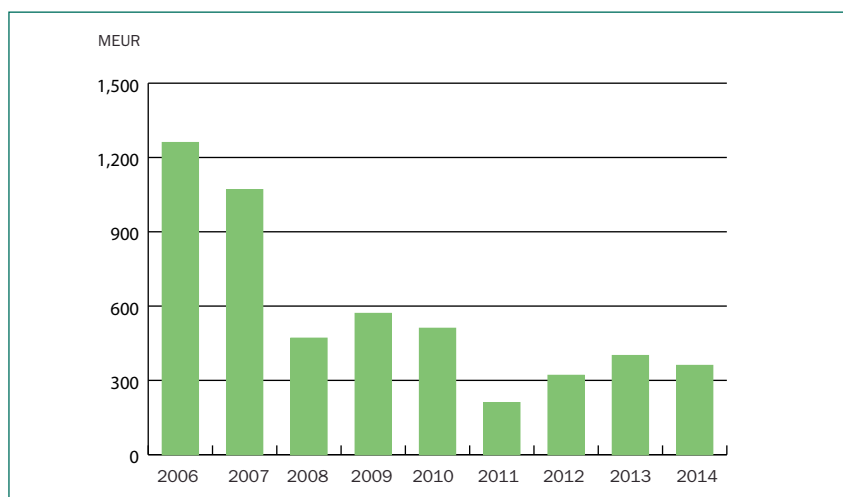
Property financing

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

During the market peak, the Finnish market also attracted some foreign specialised real estate lenders, most of which have, however, closed their local offices in Finland in recent years. The international player currently most active in the Finnish the real estate market is Helaba (Landesbank Hessen-Thüringen).

The availability of debt finance has improved markedly during the past two years. Refinancing of the debt used to finance investments during the peak between 2005 and 2008 never caused any significant market disruptions in the Finnish market.

Sale-and-leaseback transactions 2006-2014



Source: KTI

In the current market conditions, lenders still mainly favour core assets with stable cash-flow and solvent, well-known investors. The availability of debt is, however, good, and the margins have decreased for best properties and clients.

Finnish institutions have shown some interest in providing debt for real estate investments. This is attractive, in particular, for life insurance funds, for whom the Solvency II framework gives debt a better position than direct property investments. Pension and life insurance funds can either provide property debt directly to their clients, or act in co-operation with banks in financing deals. In current market circumstances, however, banks have proven to be more competitive, and the volume of debt provided by institutions has not increased significantly.

"Major property companies use bond financing"

The biggest property investors have access to several sources of finance. The biggest Finnish property companies currently use corporate bonds for financing their balance sheets. In addition to the major listed companies Sponda, Citycon and Technopolis, residential investment companies VVO and SATO also use bonds in their financing.

Property development

The Finnish commercial property development market is dominated by construction companies who typically have a separate arm that specialises in commercial property development. They are active players in new development, whereas the redevelopment of existing buildings is mostly handled by their owners.

Major construction companies involved in commercial property development include NCC, Skanska, YIT, Hartela, Lemminkäinen, SRV and Peab. These companies have all been active in this field in recent years and have cooperated with both domestic and international investors. Skanska has organised its development operations in the Nordics through Skanska Commercial Property Development Nordic, which can, under certain circumstances, also remain as an investor in the buildings it develops – at least temporarily. They are currently developing an office building in the vicinity of the Helsinki-Vantaa airport. NCC Property Development is known especially as an active developer of its business park concepts in the Helsinki metropolitan area and other major cities. Shopping centre REDI and other projects in Kalasatama are the largest of SRV's current projects.

All these companies also develop residential properties – both to be sold directly to homebuyers as single units and to investors in larger quantities. For this, they typically buy and hold a significant amount of plots. In recent years, the sales to investors, property funds in particular, have increased markedly. In the residential property development sector, there are also numerous, typically smaller local players, who mostly develop apartments for homebuyers.

Bonds issued by the Finnish property investors

ISSUER	ISSUED DATE	MATURITY DATE	MATURITY, YEARS	ISSUED AMOUNT, mEUR	INTEREST, FIXED COUPON, %	TYPE
Sponda	27.5.2010	27.5.2015	5	100	4.38 %	unsecured
Sponda	4.4.2011	4.4.2016	5	650 mSEK	3 month's STIBOR + 2.40 %	unsecured
SATO	16.4.2012	16.4.2019	7	100	3.375 %	secured
Citycon	11.5.2012	11.5.2017	5	150	4.25 %	unsecured
Sponda	29.5.2012	29.5.2017	5	150	4.125 %	unsecured
Sponda	5.12.2012	5.12.2017*	-	95	6.75 %	hybrid
SATO	20.3.2013	20.3.2018	5	100	2.875 %	secured
Technopolis	26.3.2013	26.3.2018*	-	75	7.50 %	hybrid
VVO	29.5.2013	23.5.2020	7	100	3.25 %	secured
SATO	18.6.2013	18.6.2023	10	24	12 month's Euribor + 2.50 %	secured
Citycon	24.6.2013	24.6.2020	7	500	3.75 %	unsecured
Sponda	9.10.2013	9.10.2018	5	150	3.375 %	unsecured
SATO	20.12.2013	20.12.2022	9	25	6 month's Euribor + 2.25 %	secured
Citycon	1.10.2014	1.10.2024	10	350	2.50 %	unsecured

*The bond has no maturity, but the company may exercise a redemption option after five years from the issuance date.

Source: KTI

"Construction companies are significant developers"

Some owner-occupiers – large retailers SOK and Kesko, in particular – are significant and professional property developers. They typically have strong bargaining power with local authorities in planning issues because they both increase employment and bring tax revenues to municipalities.

Institutional investors traditionally have quite conservative strategies concerning commercial property development. They typically only enter a project when the majority of the premises are pre-let. Their development strategies emphasise the redevelopment of existing assets in their portfolios, where they can, for instance, look for new uses for vacant properties. Institutions typically pursue slightly more active strategies in residential development, which is considered less risky than commercial property development, especially in cases where they have appropriate plots in their portfolio.

One area of property development where institutions currently show increasing interest is the redevelopment and change of use of vacant office buildings in their portfolios. The continuing oversupply of office premises in the Helsinki metropolitan area in particular has pressured investors to look for solutions. However, these processes often take a long time, as they most often require changes in planning, as well as thorough technical and financial feasibility studies.

"Institutional investors are interested in redevelopment of vacant office buildings"

Finnish property investment companies also actively develop assets to 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. They all currently have significant development projects underway in Finland: Citycon is developing a shopping centre in Lappeenranta and carrying out an expansion in Iso Omena in Espoo; Sponda is developing offices in Helsinki, and Technopolis is expanding its office campus at the Helsinki-Vantaa airport.

There are also some smaller non-listed property companies and funds active in property development in their niche markets. One example is Renor, which concentrates on redevelopment of old industrial premises. In 2014, the company completed a major project in Pori, where an old industrial building was redeveloped for shopping centre and office use. Pension fund Ilmarinen is a co-investor in the project.

HGR Property Partners is another real estate investment company focusing on real estate development, mainly investing in existing buildings to be redeveloped for some other use. Some property funds also include property development in their strategy. For instance, Auratum has acquired some old office properties in its portfolio to be developed for residential use.



Photo: NCC / Erik Mårtensson

4 Property sectors: market structure, practices and investment performance

4.1 Property investment market in 2014

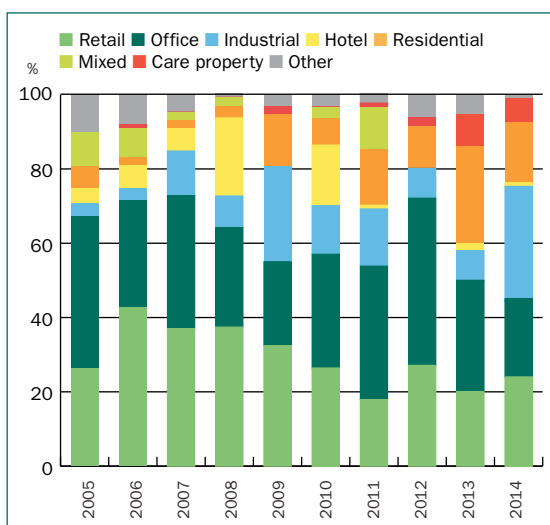
Together with increased activity in most European property markets, the Finnish market's transaction volume rose markedly in 2014 compared to the previous year. The volume totalled some €4.25 billion, which represents an increase of 70% compared to 2013. Consequently, 2014 was the third most active year in the Finnish property market since the beginning of the KTI follow-up, which dates back to 2001.

"Investment activity rose markedly in 2014"

Due to few major transactions, domestic investors dominated the market with a 65% share of all transactions. The biggest individual transaction was the foundation of a new property investment company Certeum Oy, which acquired a €917 million portfolio of logistics and industrial properties from Varma, Sponda and Sponda's funds. This transaction, together with a couple of other significant deals, raised logistics to the most traded sector with a 31% share of all transactions.

Foreign investors accounted for some one third of all transactions. Altogether, six new players entered the market during the year. The biggest transaction was carried out by Partners Group, who acquired a portfolio of retail and

Distribution of transactions by property type, 2005–2014, % of all transactions

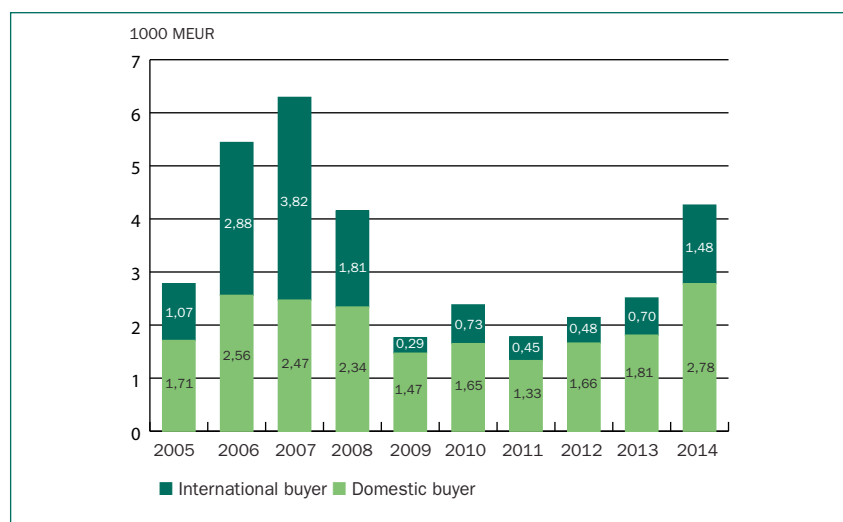


Source: KTI

office properties from the Niam Fund III for some €240 million. The second biggest foreign investment was done by Deka Immobilien, who acquired the Sanoma House for €176 million. In addition to Partners Group, other significant newcomers included H.I.G. Capital, Fastighets AB Balder, as well as the Swiss AFIAA. Also the Swedish companies Redito and Hemsö continued increasing their Finnish portfolios, as well as Niam and AXA through their funds.

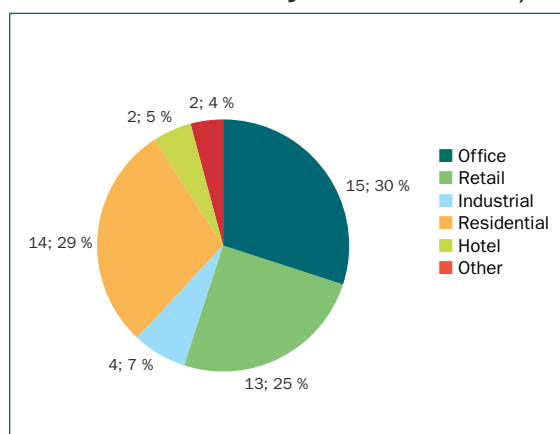
"Several new foreign investors entered the Finnish market"

Transactions volume in the Finnish property market



Source: KTI

The structure of Finnish property investment market by sector EUR bn ; %



Source: KTI

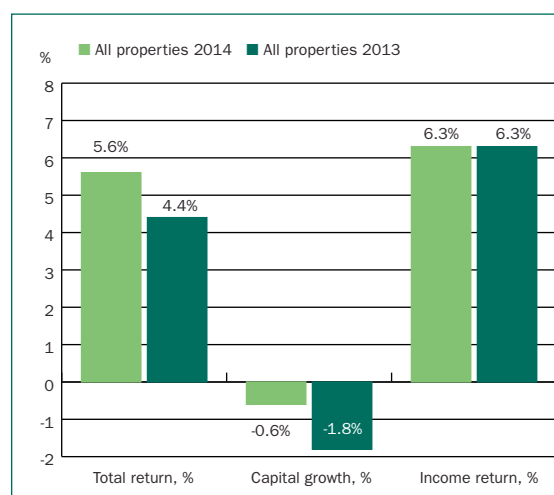
Office and retail properties continued attracting investors, and represented some 21 and 24% of the total volume, respectively. Retail properties were mostly traded as portfolios, whereas the office property market was characterised by transactions by major single property transactions.

Another phenomenon typical for transactions in 2014 was, again, the significant share of residential properties of all transactions, amounting to 17%, which also resulted as an increase in residential properties' share of the total investment market. Residential portfolios were mainly acquired by property funds, and the majority of deals were made of newly developed properties. Altogether, domestic property funds represented one quarter of the total activity, while domestic institutions' share only amounted to some 5%.

"The Finnish property market produced a total return of 5.6% in 2014"

According to the KTI Index, the total return on the Finnish property market amounted to 5.6% in 2014 (4.4% in 2013), consisting of a capital growth of -0.6% and a net income of 6.3%. Compared to 2013, the net income remained stable. Capital return remained in the negative territory for the fourth consecutive year, but improved slightly from the previous year's level of -1.8%.

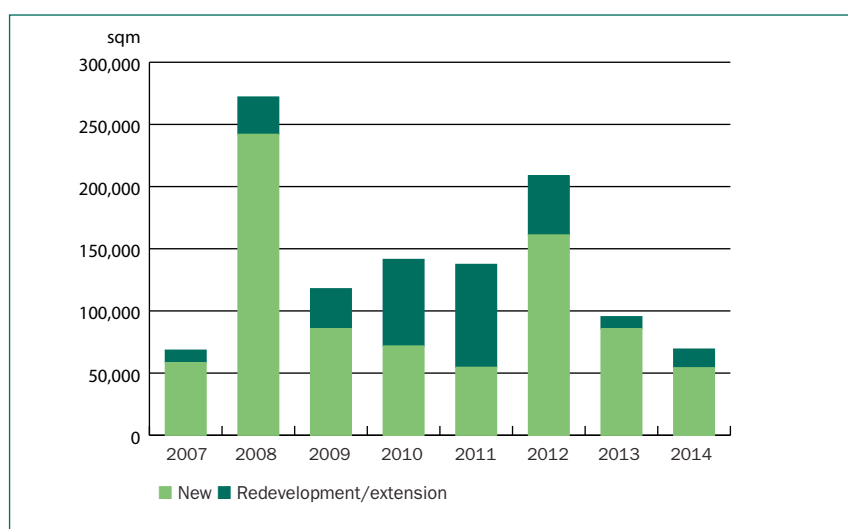
Returns on the Finnish property market, 2013-2014



Source: KTI Index



Completions of offices in the Helsinki metropolitan area, 2007–2014



Source: KTI, RPT Docu Oy

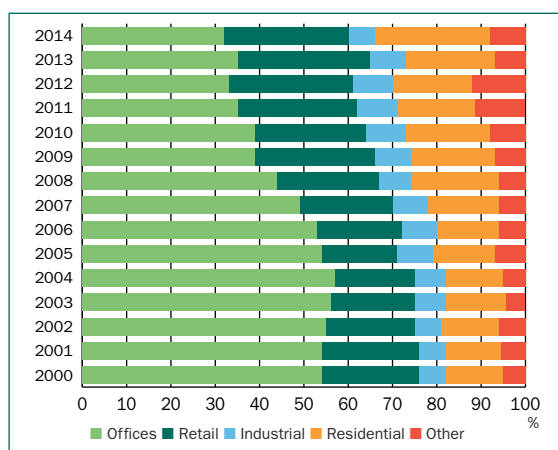
4.2 The office market

Stock

The total stock of office space in Finland is some 19 million square metres, about 8.6 million of which is located in the Helsinki metropolitan area, and another 3.6 million in other major cities. The dominance of the Helsinki metropolitan area in the Finnish economy and commercial property market is greater than in many other European centres of the same size, which is also reflected in the office stock.

Office stock in the Helsinki region has increased significantly in recent years through completions of newly or redeveloped office space. At the same time, the amount of vacant space has increased markedly, standing currently at some 12.5%, according to Catella Property.

KTI Index database by property sector, 2000–2014, % of market value



Source: KTI Index

Players

Offices have traditionally played a significant role in Finnish institutional property portfolios. In the KTI Index, for example, offices currently represent some 32% of the total database. However, the share of offices has decreased constantly during the past years, mainly due to the poor performance, as well as the emergence of new property sectors in the investment market. The majority, some three quarters, of the offices in the KTI index database are located in the Helsinki metropolitan area.

The largest proportion of investable office stock is multi-tenant office buildings, typically located in city centres and recognised office areas. The second category is single-tenant buildings used typically as company headquarters. These can be found both in the Helsinki central business district (CBD) and in some other areas in the Helsinki metropolitan area. In the past, headquarter properties were typically owner-occupied, but during recent years, several companies have sold their headquarter properties to investors, and, in the case of new development, offices are typically developed together with investors. The third office category is business-park-type properties located near good traffic connections, mainly in the Helsinki metropolitan area. The supply of office premises in business parks, in particular, has been increasing quite rapidly in recent years through new development. Domestic institutions typically hold all three office types in their portfolios, whereas property companies and funds tend to have more focused strategies. Foreign investors have also invested in all office segments, particularly in the Helsinki metropolitan area.

The biggest investors in the office sector include large Finnish institutions such as Varma, Ilmarinen and Keva, listed companies Sponda and Technopolis and specialised

non-listed domestic funds such as CapMan's and Exilion's funds. Foreign investors, for instance Deka Immobilien, AXA and Niam also increased their investments in prime offices in 2014.

"Helsinki CBD offices continued attracting investors"

Offices in the Helsinki CBD continue to be the most attractive investment target due to their secure cash-flow. However, the supply of this kind of properties remains scarce in the market, and, in recent years, these prime properties have mainly been acquired by foreign investors, as the Finnish property markets still offer a clearly positive yield gap compared to most other markets, and as domestic players remain more cautious with their yield perceptions. In 2014, the capital growth in CBD remained positive, mainly driven by yield compression.

The biggest office transaction in 2014 was carried out by Deka Immobilien, who bought the Sanoma House in Helsinki CBD. Another central office transaction was carried out by the Swiss AFIAA, who acquired the recently redeveloped Brondankulma property from CBRE Global Investors for some €60 million. Outside the city centre, the biggest office transaction was the acquisition of one of the former Nokia buildings, currently leased to Microsoft Mobile, in Espoo by a fund managed by AXA. The seller in this €65 million transaction was a fund managed by Exilion.

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, thus increasing the transparency of rents and tenants' motivation for cost savings.

Typical operating costs for office properties vary between €3.50 and €4 per square metre, depending on the location and characteristics of the building. As such, they might represent a significant proportion of the gross cash flow.

Indefinite lease terms are commonly applied in multi-tenant office buildings. In this kind of agreement, both parties can terminate the contract within the agreed notice period, which might be three, six or twelve months. It is also common to agree on a fixed period of three or five years, after which the contract continues for an indefinite term with the agreed notice period.

Fixed lease terms are commonly applied in larger office units, which are often developed for the needs of a certain occupier. In single-tenant buildings, the terms are usually quite long, between ten and twenty years. In these agreements, net rents are commonly applied, and the tenant is responsible for the maintenance of the building. These kinds of agreements are also typically applied in sale-and-leaseback deals, with lease lengths varying between five and fifteen years.

Business parks compete by offering flexible agreements and extensive service supply. Service options comprise typical business services 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. Rental agreements are normally a fixed term for three to five years.

In the current challenging market conditions, various means are being applied in order to attract and retain tenants in more demanding premises in particular. Rent-free periods and stepped rents are commonly offered, and tenant improvements are negotiated.

Office rents are typically linked to the Cost of Living Index.



Rental market – offices

In the rental markets, prime and secondary office areas and buildings continue to show very different performance. Despite the increasing economic challenges, best premises in prime areas continue attracting tenants for relatively high rents, whereas in the secondary areas, vacancy rates remain high and rents continue decreasing. Therefore, investors are forced to explore solutions for possibly even permanently vacant office buildings.

The Helsinki CBD office market continues to perform relatively well despite the challenging market conditions. However, even in the city centre, the vacancy rate has increased recently. Top rents, which continued to increase until mid-2014, have now stayed stable, and in the average rents, there are downward pressures. According to the RAKLI-KTI Property Barometer, the outlook for office rents is now negative even in the city centre.

In most other office areas, the performance is dependent on the characteristics of the individual asset in question. In many established office areas, such as Leppävaara in Espoo and the airport area in Vantaa, there are buildings that suffer from long-term vacancy. On the other hand, in Ruoholahti and Pasila-Vallila areas, vacancy rate has decreased slightly during the past year.

According to Catella Property, the office vacancy rate of the Helsinki metropolitan area stood at 12.5% at the end of 2014, showing a slight increase from the 12.4% at the end of 2013. Altogether, there is some 1,083,000 sqm of vacant office space. Oversupply of office space can still be regarded as the single most serious problem in the Finnish property market. The high vacancy rate is a consequence of both active new development during the past years, as well as the softening demand caused by uncertainty in the economy. At the same time, there is a strong tendency towards more efficient space usage among occupiers, which also decreases office demand.

Since 2008, more than 750,000 sqm of new office space has been completed in the HMA. New development has been boosted by occupier needs, which emphasize good location as well as space efficiency and flexibility. Vacant space can mainly be found in secondary locations and less modern buildings.

"Office vacancy rate currently stands at 12.5% in the Helsinki metropolitan area"

In KTI's rental database, the occupancy rate of office premises in major investors' portfolios stood at about 85% for all of Finland at the end of 2014. Occupancy rates remain the lowest in Espoo, at some 76%. In the Helsinki metropolitan area, the vacancy issue is currently quite widespread with the highest amounts of vacant space being found in the areas of Pasila-Vallila, Pitäjänmäki and Keilaniemi.

In cities outside of the Helsinki region, offices are typically concentrated in city centres and one or two office areas outside city centres. Prime office rents in major cities remain mostly stable. However, vacancy rates have increased in all major cities.

Changes of use are being pursued in order to control the office vacancy issue

High office vacancies force investors to execute various means to control this problem. The first actions are usually taken in enhancing leasing operations, and various means are used to attract tenants, including the development of the buildings and tenant improvements. In addition to lower rents, rent-free periods and stepped rental increases are commonly applied. In current market conditions, landlords also typically approach their tenants well before the termination of the rental period, and start negotiations for continuation early.

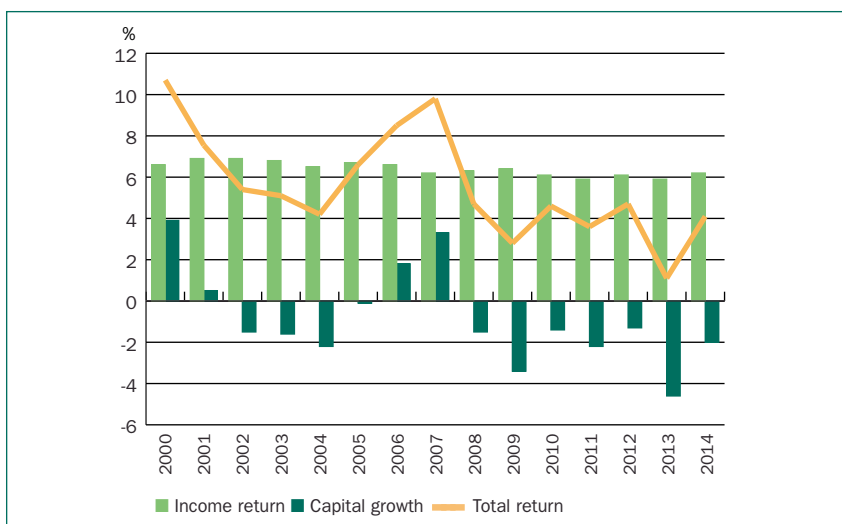
In addition to enhancing their leasing operations, alternative uses are commonly being explored and vacant office buildings are being redeveloped, for instance, for residential or hotel use. However, since 2007, only some 58,000 sqm of office space has been redeveloped for hotel, and some 64,000 sqm for residential use in the HMA. A big proportion of these buildings are located in central areas, mainly in the Helsinki CBD. In many cases, these buildings had originally been built for residential use and changed to offices in 1970s or 1980s; therefore, it is relatively unproblematic to restore them back to their original use. Change of use is also often a viable solution for vacant office space in multi-use buildings, where the majority of premises might already be in residential use.

In other areas, planning issues often prevent or at least prolong redevelopment processes. The process for changing the use of a building in the master plan might take several years, or, in some areas, might not be possible at all. Depending on the municipality, the fees for land use might also deteriorate the feasibility of redevelopment processes. Thirdly, the potentially unused building right is crucial from an economic point of view.

From a technical point of view, old office buildings' suitability for some other use needs to be carefully investigated. In some cases, the building's technical frame does not allow restoration at all, or feasible apartment design is not possible. Office buildings' HVAC systems do not typically fulfill the current standards for residential premises, and their redevelopment can be highly costly or even impossible. There are also several building standards and regulations that have to be taken into account in redevelopment processes. Therefore, in some cases, it has proven to be more feasible to demolish the old office building and build wholly new residential buildings on the site.

The Finnish property industry is pleading for more flexible practices for change of use processes. It would be crucial for investors to find solutions for vacant office space. From a societal point of view, redevelopment could be one effective means for increasing the housing supply in the Helsinki metropolitan area.

Total returns on office investments, 2000–2014



Source: KTI Index

Despite the decreasing demand, some 54,000 sqm of new office space was completed in the Helsinki metropolitan area in 2014. The most important completed office projects included the last two buildings in the Töölölahti area in the Helsinki CBD. At the end of the year, some 94,000 sqm of new office space was still under construction. The biggest ongoing project is the 58,000 sqm new headquarter for OP-Pohjola Group in Vallila. Other major projects include, for instance, two occupier-led projects developed by Sponda – one in Pasila and one in Lassila – as well as the first phase of Ultimes Business Garden with a gross area of 20,000, being developed by Peab Invest in Pitäjänmäki. Increasing space supply, together with sluggish demand, is expected to increase the vacancy rate further.

**"Occupier needs boost
new development
despite high vacancy
rates"**

According to the KTI Index, offices produced a total return of 4.1% in 2014 (1.1% in 2013). Net income increased to 6.2% (5.9% in 2013), and capital growth remained negative at -2.0%. Due to the negative outlook, changes in market values remained in the negative territory for the 7th consecutive year.



Photo: NCC / Mikael Lindén

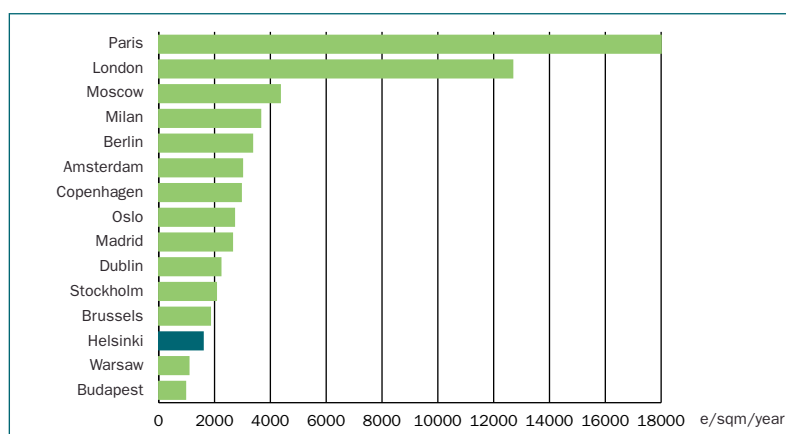
Office rents and yields in Helsinki and other European capitals

Helsinki CBD offices continue to show good performance despite challenging market conditions. Office yields have continued decreasing, and stood at 5.3% on average in late 2014, according to the RAKLI-KTI Property Barometer. This represents a 0.1 percentage point decrease within the past year. For prime properties, yields are currently well below 5%, and have shown even steeper compression than average properties. Therefore, the yield gap between Helsinki and many other European capitals has narrowed down within the past year. In current market conditions, Helsinki CBD's specific position in the Finnish property market context has become even more prominent, and yield gaps between the Helsinki CBD and all other regions have increased.

"Due to yield compression, gap between Helsinki and other European capitals has narrowed"

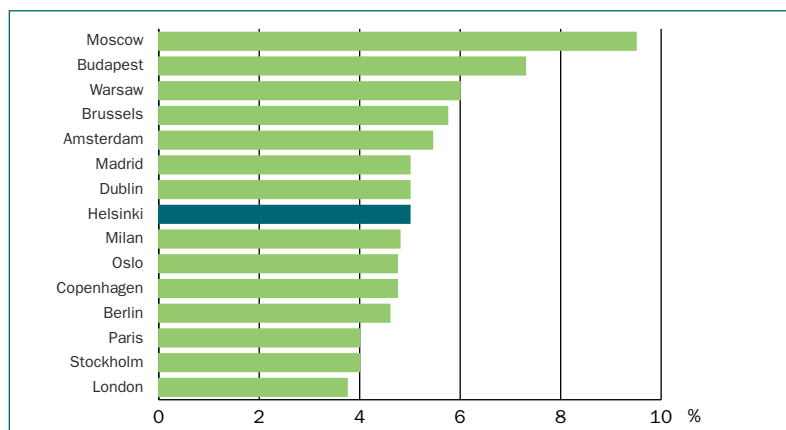
Top rents in the Helsinki CBD have continued increasing slightly, and clearly exceed €30 per sqm. The average rent in the KTI database stood at €27 per sqm in late 2014. However, even in the city centre, the balance figure for rental outlook turned clearly negative in the RAKLI-KTI Property Barometer carried out in October 2014.

Prime office rents in Helsinki and other European cities, Q3/2014



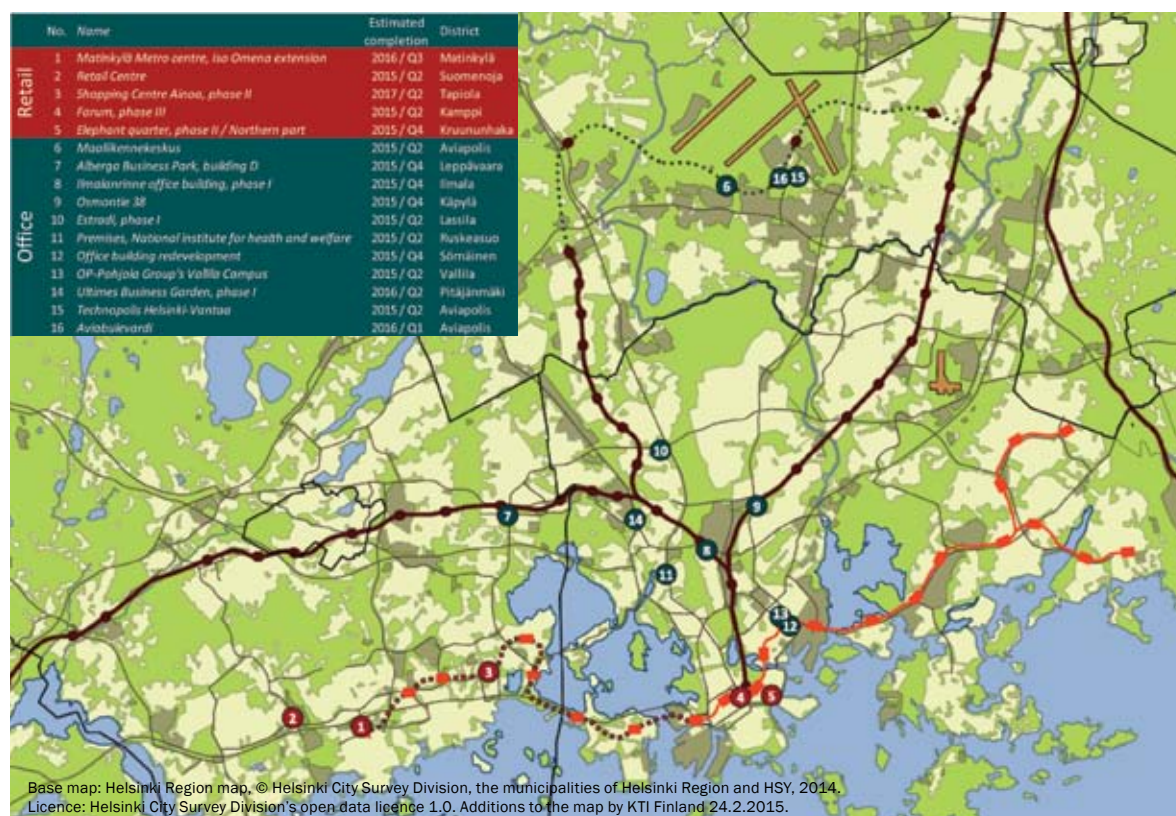
Source: JLL, KTI (Helsinki)

Prime office yields in Helsinki and other European cities, Q3/2014



Source: JLL, KTI (Helsinki)

Office and retail properties under construction in the Helsinki metropolitan area



Source: KTI, RPT Docu Oy

4.3 The retail market

Stock

Altogether, there are some 28 million sqm of retail space in Finland, about 3.7 million sqm of which is located in the Helsinki metropolitan area, and 5.2 million in other major cities. In the past 10 years, the retail stock in the Helsinki metropolitan area has increased by some 30%.

According to the Finnish Council for Shopping Centres, there are 93 shopping centres with a total leasable retail area of 1.9 million sqm. Major shopping centres are mainly located in the major city areas.

Retail properties' investment performance has been strong compared to other commercial property sectors, which has supported their attractiveness in the investment market. In the past years, they have represented some 20-25% of all transactions, and in the KTI Index, they have produced the highest returns of all commercial property types in both 5 and 10 years' investment periods. However, the sluggish outlook for private consumption and changing patterns of consumer behaviour are currently deteriorating the outlook for retail properties' investment performance.

Players

In 2014, retail properties represented some 28% of the KTI Index database. Retail is typically well represented in pension funds' investment portfolios, including both shopping centre and hypermarket properties as well as smaller retail units. There are also some major players specialising in retail, with Citycon being the biggest in this group. Some international investors have also concentrated on retail, investing either in shopping centres or smaller retail properties. For instance, the Swedish Redito has increased its portfolio rapidly through a couple of supermarket portfolio transactions. The two major Finnish retailers, Kesko and S Group, are also major players in retail property development and investment.

The Finnish shopping centre market is dominated by Citycon, which currently owns 21 shopping centres in Finland. Some Finnish pension institutions own whole, typically regional, shopping centres in which they typically invest in quite early phases of development. For example, Varma has in recent years invested in new shopping centres in the cities of Tornio and Hyvinkää, and Keva has invested in another new centre in Hämeenlinna. Pension funds also often enter into joint investments with other investors in bigger centres. For example, the Sello shopping centre in Espoo is owned jointly by three pension institutions – Keva, Elo and Etera – while the Jumbo shopping centre in Vantaa is owned by a group consisting of Elo, Unibail-Rodamco,

Kesko and S Group. Ilmarinen is a co-investor in Citycon's IsoKristiina centre in Lappeenranta, as well as in Renor's newly completed Puuvilla in Pori.

The Finnish shopping centre market has also attracted some specialised foreign property companies and funds such as Wereldhave, Unibail-Rodamco, as well as retail funds managed by CBRE Global Investors and Cornerstone Real Estate. Also Allianz Real Estate has entered into a joint venture investment in the Kampi shopping centre with Cornerstone.

Domestic property funds, such as those managed by Aberdeen and CapMan, have also invested in shopping centres, concentrating on smaller centres in the Helsinki area and some larger ones in other cities. Sponda also owns some major shopping centre properties and development schemes and has, in its new strategy, informed that shopping centres will remain at the core of its business also in the future. Retail chains Kesko and S Group are also investors in shopping centre properties.

High street shops are typically located in CBD office buildings, and, as a result, major office investors such as Sponda, Keva and Ilmarinen are also significant retail owners in prime retail in Helsinki. High street shops typically compete for consumers with out-of-town shopping centres. In many regional cities, the attractiveness of city centres has been increased through facelifts to the space supply, extension of pedestrian areas and an increase in parking facilities.

During the past few years, several new international retail chains have entered the Finnish market, attracted by the modern high-class retail space in prime locations, both in city centres' retail areas as well as in major shopping centres.

Hypermarket and supermarket investments are traditionally favoured by Finnish institutions due to the typically long leases and secure cash flow. This sector has

also recently attracted foreign investors. Retail operators, S Group and Kesko in particular, remain major owners and developers of hypermarket and supermarket buildings. However, in recent years, they have applied more diversified property finance strategies, and have sold properties to investors. For instance, HOK-Elanto, S Group's biggest co-operative, sold two retail portfolios to Redito in 2013 and 2014. Kesko has announced that it is planning to set up a major property investment company and transfer some €670 million worth of group's retail properties into it. The company plans to remain as long-term tenant, as well as a shareholder in the company, and aims to attract institutional investors as shareholders in the company.

The Finnish daily goods market is dominated by S Group and Kesko, with shares of 45 and 34% of total sales, respectively. They operate in all store categories – hypermarkets, supermarkets and smaller stores. In 2014, the German Lidl rose to the third place with a share of some 8%, followed by Suomen Lähikauppa with a share of 7%. Lidl mostly owns its supermarket properties, whereas Suomen Lähikauppa predominantly operates in rented premises.

Rental practices

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

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

Top 10 Shopping centres in Finland

CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
ITIS	106,165	Wereldhave Finland Ltd, Kesko Plc	HELSINKI
SELLO	97,900	Keva, Etera, Elo	ESPOO
IDEAPARK	91,712	Private investors	LEMPÄÄLÄ
JUMBO	85,000	Unibail-Rodamco, Elo, HOK-Elanto, Kesko Plc	VANTAA
MATKUS	65,000	Ikano Retail Centres Kuopio Oy	KUOPIO
WILLA	53,514	Varma, CapMan Real Estate, EjendomsInvest Oy Ab, HOK-Elanto	HYVINKÄÄ
ISO OMENA	51,600	Citycon Finland Oy	ESPOO
VETURI	48,500	Kruunuvuoren Satama Ltd	KOUVOLA
KAARI	47,445	HOK-Elanto	HELSINKI
MYLLY	44,221	KauppaKeskus Mylly Ltd	RAISIO

Source: Finnish Council of Shopping Centres



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

In shopping centres, anchor tenants often have leases of five to ten and even 15 years, with renewal options sometimes applied in shorter leases. Other tenants typically have shorter leases. The use of turnover leases is gradually increasing in shopping centres, but the share of turnover-based rent is typically rather small.

The retail market in 2015

Retail sales performed poorly in 2014, and the volume of total sales decreased by 1% compared to the previous year. The sales of daily goods remained almost unchanged, whereas the sales of consumer goods decreased by some 2%. The outlook for retail sales also looks sluggish: the growth of private consumption is expected to remain close to zero in 2015.

In addition to a low consumer demand, retail sales are also facing challenges caused by changes in consumer behaviour. E-commerce's share of retail sales amounts currently to some 9%, and it is expected to continue increasing. The challenges in retail sector became increasingly visible in the retail property market in 2014.

In the retail markets, shopping centres performed slightly better than the overall retail sales. According to the follow-up of KTI and the Finnish Council of Shopping Centres, the amount of visitors in the Finnish shopping centres remained stable (+0.4%), whereas the sales dropped slightly, by 0.6%. There were, however, significant differences between retailer types.

"Increasing challenges in the retail property market"

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

In the Helsinki CBD and in the best shopping centres, prime retail rents continued increasing until early 2014. Since then, tenants' negotiation power has increased markedly, and top rents are paid only for the very best locations. According to the RAKLI-KTI Property Barometer, prime rents in the Helsinki CBD stood at €109 per sqm per month on average, having been at €120 in the previous year. The respondents expected the rents to continue decreasing also in the future. However, rents in the best locations remain clearly above this, and seem to be less vulnerable to cyclical changes.

"Amount of vacant retail space increased markedly in 2014"

Due to the challenging consumer market, the amount of vacant retail space started to increase in 2014. According to Catella Property, the vacancy rate for Helsinki metropolitan retail markets stood at 4.7% at the end of 2014. The amount of vacant space increased by one third during 2014. In the KTI rental database, the occupancy rate of major investors' retail property portfolios stood at some 95%. In the retail markets, however, landlords seem to be willing to negotiate rental levels to avoid vacancy. This might prevent vacancy rate from increasing, but, on the other hand, impacts investors' cash flow negatively.

In recent years, retail property development in the Helsinki metropolitan area has been characterised by major redevelopment and extension projects of existing properties. Many of the major shopping centres – including Itis, Forum, Citycenter, Ruoholahti and many others – have been redeveloped or extended in 2013 or 2014. At the end of 2014, the largest ongoing projects in the Helsinki metropolitan area included the extensions of Iso Omena and Ainoa shopping centres in Espoo. Despite the challenges in the economy, there are some major projects being planned in the Helsinki metropolitan area. The construction of the new

REDI shopping centre in Kalasatama is expected to start in 2015, planning for the Mall of Tripla in Pasila is underway, and the centre is expected to be completed in 2019.

Elsewhere in Finland, major shopping centre completions in 2014 included those of Lielähtikeskus in Tampere, Puuvilla in Pori, Goodman in Hämeenlinna and Ideapark in Oulu. The extensions of Mylly in Turku area, Valkea in Oulu and IsoKristiina in Lappeenranta are still underway. Ikano is developing a new retail centre in Tampere.

"Shopping centre development continues to be active"

Retail properties' transaction volume amounted to some €1.0 billion in 2014. This consisted mainly of transactions of portfolios comprising several properties. The biggest transactions were carried out by Partners Group, who acquired a retail and office portfolio from Niam, as well as Redito, who bought portfolios from HOK-Elanto and Sveafastigheter. Also Trevian Asset Management, together with H.I.G. Capital, made a €107 million transaction by acquiring a retail property portfolio from AXA's fund.

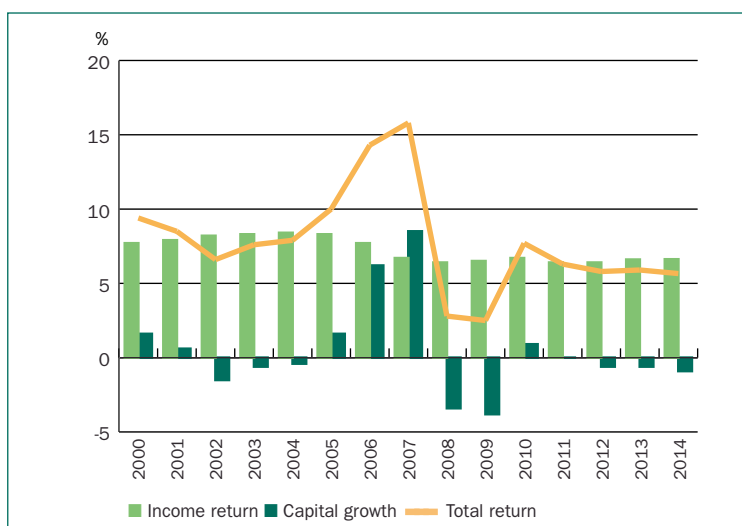
Total return on retail property investments amounted to 5.7% in 2014 (5.9% in 2013). Income return remained stable at 6.6%, and capital growth was slightly negative at -0.9%. Other retail properties outperformed shopping centres, mainly due to higher income return.

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

Total returns on retail investments, 2000–2014



Source: KTI Index

4.4 Rental residential sector

Stock

There are some 2.6 million dwellings in Finland. Of these, about 40% are single-family homes. More than 44% of the dwellings are in apartment buildings. Some 69% of Finns live in urban areas.

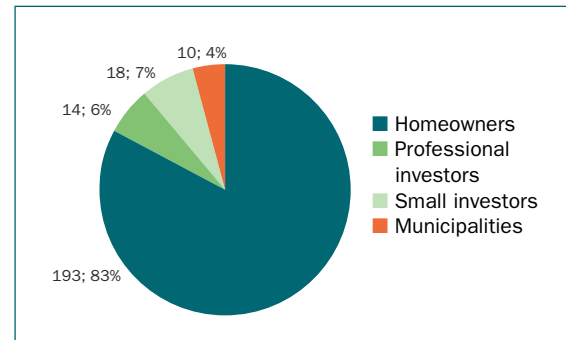
The average size of a Finnish household has decreased constantly and is currently 2.06 persons. Some 42% of Finnish households are single person households, and another 33% consists of only two persons. Therefore, the demand for smaller dwellings has increased steadily, especially in urban locations. The share of single-person households is largest in Helsinki, at almost 50%.

Some one fourth of all dwellings are located in the Helsinki region. In Helsinki, the housing density is somewhat lower than in the whole country, at some 35 sqm per person in the Helsinki metropolitan area, compared to around 40 sqm per person in the country as a whole.

"The decrease in average size of households increases demand for small dwellings"

Some two thirds of Finland's housing stock consists of owner-occupied homes, and home ownership is widespread in all forms of housing, including apartments as well as detached and terraced houses. In Helsinki, rented housing is more common than in the country on average, and some 48% of all dwellings are rented. In the whole Helsinki metropolitan area, some 42% of households live in rented dwellings, while the rate for whole Finland stands at 31%.

Ownership of Finnish housing stock, total estimate 235 EUR bn



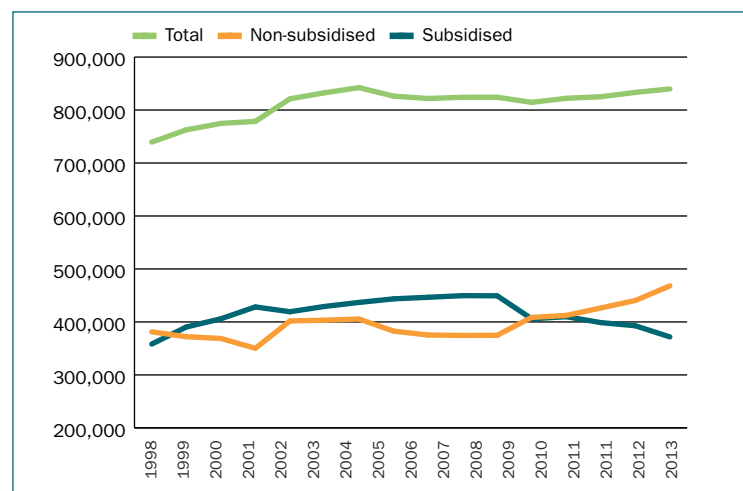
Source: KTI

In total, there are some 840,000 rental apartments in Finland. Of these apartments, some 370,000 have been provided with some kind of public subsidy, such as state-guaranteed loans or an interest subsidy for development of rental housing. The majority of subsidised dwellings are owned by municipalities' daughter companies. Private sector companies with specific public utility status – eg. VVO, SATO and Avara – own about 20% of the total subsidised housing stock. The rest of the subsidised stock is owned by foundations or charities who offer housing for specific groups like students, elderly people or the disabled.

The terms and regulation of different types of public subsidy vary significantly between different forms. Some have specific strict rules for tenant selection and, in the majority of the subsidised stock, rents are cost-based. Tenants may also be subsidised through public housing support.

In recent years, the supply for non-subsidised rental dwellings has increased, while that of the subsidised stock has decreased. The decrease in subsidised stock is caused by the termination of the loans for buildings from the 1970s. Non-subsidised stock – currently amounting to some 470,000 dwellings – has increased mainly through new construction, and, to a lesser amount, also through the termination of the restrictions of subsidised stock.

Rental dwellings in Finland



Source: Statistics Finland

Players

The majority of the subsidised housing stock, some 210,000 dwellings, is owned by the Finnish municipalities. Heka Oy, a company owned by the city of Helsinki, is the biggest player in this segment with around 43,500 apartments. The rest of the subsidised stock is owned by private, non-profit companies. The most significant players in this segment include VVO, Sato and Avara.

The majority, some 265,000 dwellings and 60% of the total supply of non-subsidised rental residential stock is owned by small investors, mainly individuals. The so-called professional residential investment market currently consists of some 170,000 dwellings.

VVO, Sato and Avara are the biggest specialised residential property investment companies. Many pension funds are also significant players in this market. Residential properties are a recognised sector in the institutional investment market, and Varma, Ilmarinen, Keva and LocalTapiola, for instance, all have several thousands of rental dwellings in their portfolios. Large pension funds such as Varma, Ilmarinen and Elo are also significant owners of the shares of VVO, Sato and Avara, and thus also have a significant indirect exposure to residential investment. In the KTI Index, residential properties represent some 26% of the total database, and their share has increased constantly during the past five years.

There are currently also several non-listed property funds specialised in residential property investment. Funds managed by for instance ICECAPITAL and LocalTapiola Real Estate are targeted at domestic institutions. In the past two years, some new funds targeted at private investors have been established, and these have attracted plenty of capital. The largest residential funds targeted at private investors are managed by Ålandsbanken and OP-Pohjola Group, whose branch networks create a good platform for distribution to private investors.

"Property funds expanded the player base in the residential investment market"

Foreign investor interest in the Finnish residential market has remained low. The foreign investors in the Finnish residential market include the Danish WH-Asunnot, as well as the German fund Patrizia.

In 2014, the Dutch pension fund APG entered the Finnish residential investment market by acquiring some 23% of SATO's shares. The seller was pension fund Varma, who also expanded their residential investment abroad by investing in a Swedish residential development structure Aros Bostad III AB.

Housing construction

According to VTT, the Technical Research Centre of Finland, the long-term need for new dwellings is estimated to be around 24,000–29,000 dwellings per year, and, in total close to 500,000 dwellings within the next 20 years. The need for new construction is concentrated in the Helsinki region and other major cities. Internal migration increases the need for moderately priced housing in the Helsinki region in particular.

According to the estimations of RT, the Confederation of the Finnish Construction Industries, the construction of some 24,500 dwellings was started in 2014, which represents a decrease of 2,600 units compared to the previous year. RT estimates the amount of new starts to remain at the same level in 2015. Investment demand in the rental residential market maintains the level of new construction, whereas low demand for owner-occupied housing remains sluggish.

"Investment demand maintains the level of residential construction"

Of all starts in 2014, some 7,400 dwellings were subsidised housing. In the current markets, subsidised housing development is mainly done by municipalities or companies offering housing for special groups. In current financial market conditions, the terms of subsidised production are not favourable and are regarded as too restrictive by private sector companies.

Residential construction activity

Started residential apartments pieces	2009	2010	2011	2012	2013	2014*	2015*
Row houses and apartment buildings	13,500	20,700	20,100	20,200	19,200	18,600	18,800
Non-subsidised	3,500	9,500	11,600	14,000	12,800	11,200	10,800
Subsidised	10,000	11,200	8,500	6,200	6,400	7,400	8,000
Detached houses	8,900	12,100	11,000	9,700	7,900	5,900	5,700
Non-subsidised	8,900	12,100	11,000	9,700	7,900	5,900	5,700
Total	23,100	33,700	31,500	29,900	27,100	24,500	24,500
Non-subsidised	13,100	22,500	23,000	23,700	20,700	17,100	16,500
Subsidised	10,000	11,200	8,500	6,200	6,400	7,400	8,000

*Estimate

Source: Statistics Finland, ARA, RT

Rental practices

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

Rental agreements are typically made for an indefinite period. It is also possible to agree on a certain fixed period, such as a year, and afterwards the agreement continues 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.

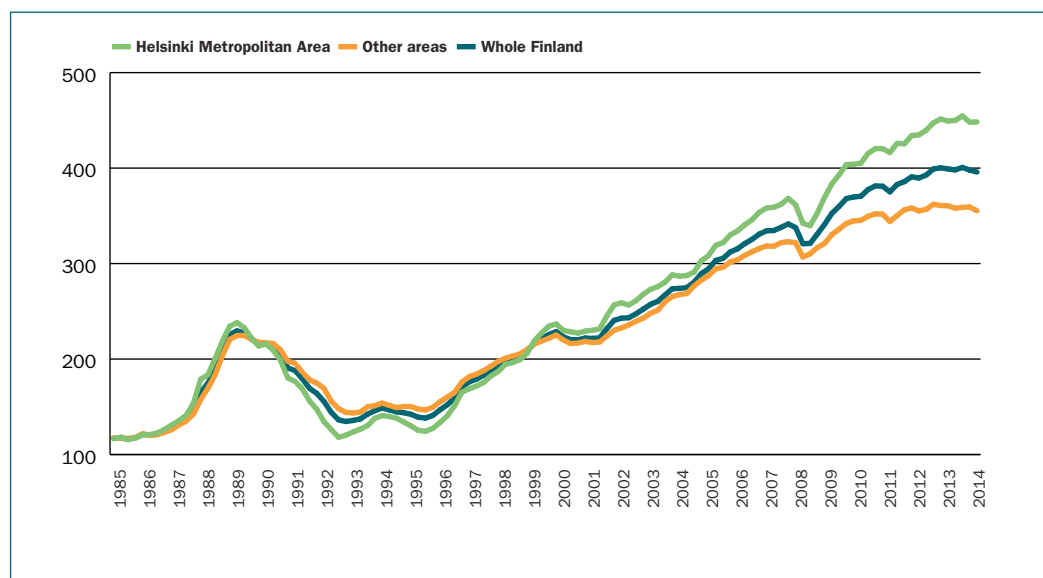
Rents are typically indexed, with the cost of living index being the most used. In current conditions, it is also common to agree on a higher level of rental increases, for instance a minimum of 3 or 5 per cent. This kind of indexation is used by professional investors in particular, and allows the landlord

to adjust rental increases to prevailing market conditions in different areas and buildings.

In the subsidised housing stock – depending on the form of subsidy – there might be restrictions related to both rental levels and tenant selection. In so-called ARA-housing stock, where state housing loans or subsidies are used, rents are cost-based. In some dwellings produced with interest subsidy, there might be varying conditions for tenant selection, but rents are typically market-oriented. In dwellings produced with the specific interest subsidy in 2009–2010, the aim of which was to stimulate both housing supply and employment in the construction sector, there are no restrictions for tenant selection or rental levels. In these dwellings, the only restrictions are related to the holding period of the buildings.

In cases where the tenant receives a housing subsidy, set criteria related to both the tenant's income and rental prices as well as to the dwelling's size are applied.

Prices of dwellings in old blocks of flats, index (1983=100)



Source: Statistics Finland



The residential market in 2015

According to the preliminary statistics of Statistics Finland, prices for old residential dwellings decreased by 0.6% in 2014 across the whole country on average. In the Helsinki metropolitan area, the prices increased by 0.2%, whereas in the whole country, they decreased by 1.3%. During the last quarter of the year, prices decreased also in the Helsinki metropolitan area, by 0.2%. Prices for new dwellings, however, increased by 2.4% in the Helsinki metropolitan area and by 1.4% in the whole country on average.

Housing prices are forecasted to decrease slightly in 2015, by 0.7% in the whole country, according to Pellervo Economic Research PTT. Prices are estimated to decrease also in Helsinki, by 0.5%.

Demand for rental housing remains strong, especially for small apartments in the major cities. During the past decade, nominal rents in the Helsinki metropolitan area have increased annually by some 4% on average. In other major cities, the increase has been somewhat slower, amounting to 2.5-3.5% per annum on average.

During the past two years, the growth in market rents has slowed down due to the challenging economic conditions, and also, to some extent, to increasing supply. According to the KTI rental index, market rents increased by 3.7% in the Helsinki metropolitan area and 1.8% in other major cities in 2014. There were, however, significant differences between cities: in Helsinki, rents increased by 2.3%, whereas in Vantaa – where a lot of new supply has been constructed recently – the increase exceeded 6%. Outside Helsinki metropolitan area, the growth was strongest in Tampere, 5.1%, whereas in Oulu and Jyväskylä the rents remained almost unchanged.

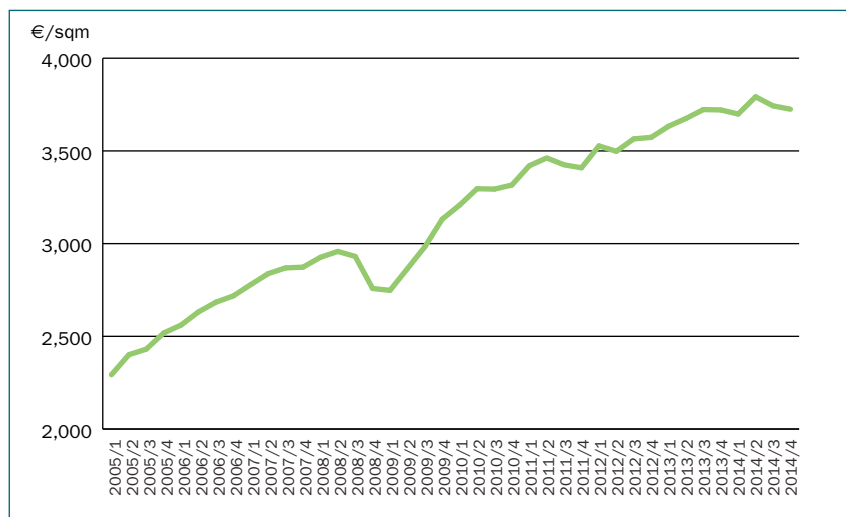
"Increase in residential rents slowing down"

The demand for rental apartments is expected to remain strong in major cities, due to continuing urbanisation and internal immigration. However, the continuing uncertainty in the overall economy, as well as moderate or non-existing increase in earnings, limit the tenants' ability to handle rental increases in many areas. According to the KTI forecasts, residential rents will increase by some 2% p.a. in Helsinki metropolitan area, and slightly less in other major cities on average.

The residential sector has attracted new investments in recent years, and many pension funds, for instance, have increased their residential allocations both directly and by investing in residential funds or companies. New capital has flown to the residential markets also from private investors through newly established property funds.

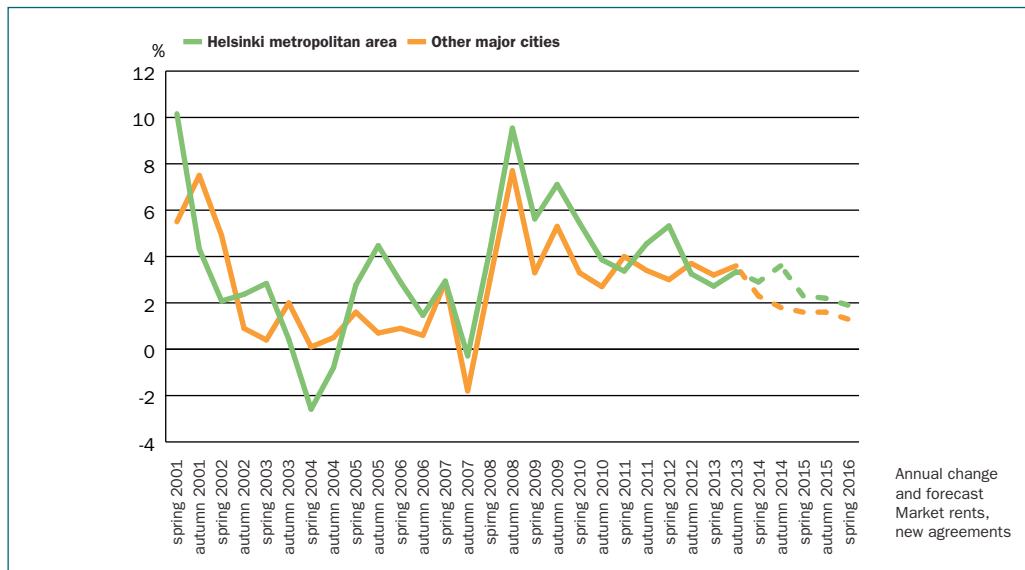
"Strong performance supports residential properties' position in the investment market"

Residential prices in the Helsinki metropolitan area



Source: Statistics Finland

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

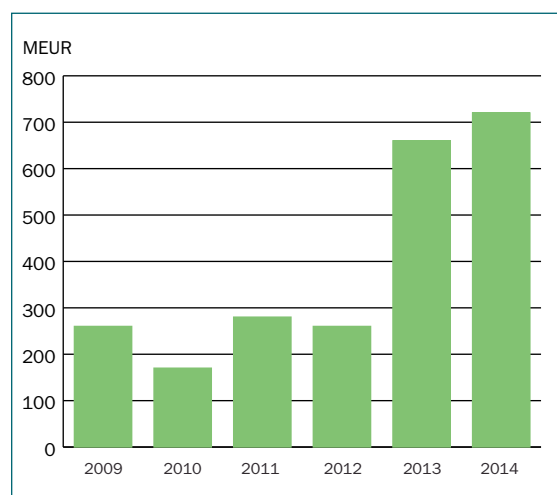


Source: KTI

The volume of residential property transactions remained high in 2014, at some €720 million (€660 million in 2013), representing 17% of all transactions. The majority of the transactions have been made on newly developed buildings, and, therefore, construction companies are on the seller's side in most transactions.

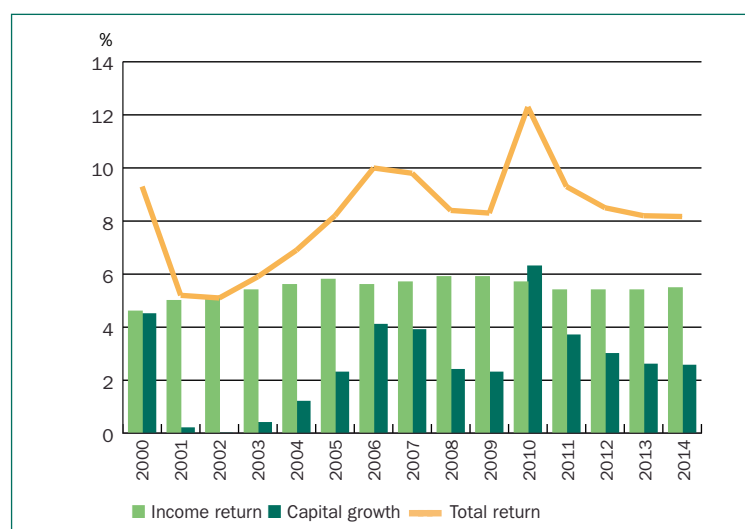
Residential properties' investment performance has remained strong – especially in comparison with commercial property sectors – which is the main driver of new investments in residential properties. Residential has been the best performing sector in the KTI Index for several years, and capital growth has remained clearly positive throughout the years. In 2014, total return on residential properties amounted to 8.2%, consisting of a capital growth of 2.6%, and net income of 5.5%. Income return was supported by increasing rents.

Volume of residential portfolio transactions, 2009-2014



Source: KTI, RPT Docu Oy

Total return on residential property investments, 2000-2014



Source: KTI Index



4.5 Healthcare properties

Stock

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

According to Statistics Finland, the total stock of healthcare facilities amounted to some 11.9 million sqm at the end of 2013.

Players

The demand for healthcare and other social sector properties is increasing together with the ageing of the population, as well as with the structural change in the service provision in these sectors. In many cases, municipalities' weak finances force them to search for alternative solutions for their traditional strategies. This has opened up new opportunities for both service providers and property investors in this sector.

Pension funds' investments in healthcare sector have typically been targeted mainly at assisted living facilities for elderly people. In addition, there are currently some specialised funds that invest in a wider selection of different kinds of properties. The first fund in this sector, EPI Healthcare I, was founded in 2007. It has an investment

capacity of €120 million, and is targeted at institutional investors. The fund is currently managed by Northern Horizon Capital. The company launched another healthcare fund in spring 2014, and the fund made several investments during 2014.

The first special investment fund investing in healthcare properties was founded in 2012 by Finnreit Fund Management, and the fund is currently known as eQ Hoivakiinteistöt and managed by eQ Bank. This fund has attracted a lot of private investors' capital, and its investment capacity exceeded €300 million in 2014. At the year end, the fund had 53 properties in its portfolio. Another special investment fund investing in healthcare properties is managed by Titanium Rahastoyhtiö. The fund is invested in 23, mostly smallish healthcare assets outside the major cities.

Trevian Asset Management launched Trevian Care I fund in 2013, and sold a €100 million portfolio to the Swedish Hemsö in early 2014. Hemsö remains the only foreign investor in the Finnish healthcare property sector. Trevian has also established another fund, with an investment capacity of €100 million, which currently has 10 assets in its portfolio.

"Healthcare property sector has established its position in the investment market"

Market practices

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

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

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

Market in 2015

Healthcare properties attracted new capital in 2014. Their transaction volume increased to some €300 million, representing 7% of all transactions. The volume increased by almost 50% compared to the previous year.

The majority of the transactions were done on newly developed assets. The biggest transactions were carried out by Hemsö, who acquired a €100 million portfolio from Trevian, as well as by eQ fund, which purchased several portfolios between €10 and 40 million. Due to strong investment demand, the yields of healthcare properties have compressed. However, the yield always depends on the property in question and varies significantly between different locations, asset types and operators.

4.6 Industrial / logistics market

Stock

Industrial and logistics property stock amounts to some 68 million square metres, according to Statistics Finland. Of this, the Helsinki metropolitan area accounts for some 13%.

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



Photo: SRV

the supply has increased in municipalities with good traffic connections, surrounding the Helsinki metropolitan area.

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

Players

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

"Occupiers are selling logistics properties to investors"

Photo: SATO



In 2014, the newly established Certeum Ltd became a major player in the logistics investment market, when it bought a portfolio of 124 logistics and industrial properties for a purchase price of €917 million. The sellers were Sponda (12 properties), Varma (22 properties) and Sponda Funds I, II and III (90 properties). 49 of the properties are located in the Helsinki metropolitan area, and the majority of the rest are in the main city areas in Finland. After the transaction, there are still some €205 million worth of logistics properties in Sponda's portfolio, which it is, according to the company's current strategy, planning to sell.

During 2014, the Swedish listed company AB Sagax increased its Finnish portfolio markedly through several transactions. It acquired logistics and industrial properties, for instance, from occupiers like Sanoma Corporation and Volvo Trucks. At the year end, the company's Finnish portfolio comprised 55 properties with a leasable area of 520,000 sqm, and it has become one of the largest foreign investors in Finland. Funds managed by NREP also invest in different types of logistics and warehousing assets, including a chain of Pelican self-storage facilities. In 2014, NREP's fund expanded its Finnish portfolio through the acquisition of a 52,000 logistics property from Huhtamäki in Hämeenlinna. Another foreign investor in the logistics market is American Realty Capital Global Trust, who made its first investment in Finland in 2014 by acquiring a major logistics centre in Mäntsälä from CapMan's fund.

Logistics and industrial properties are typically represented also in institutional portfolios. Of domestic funds, Pohjola's Real Estate Fund, for example also invests in logistics properties. In summer 2014, Pohjola Property Investment established a new fund, Suomi Toimitilakiinteistöt Ky, which acquired a €100 million portfolio of logistics and industrial properties.

Another player in the logistics property sector is property development and investment company Renor. It has significant holdings in Lahti, where it owns, for instance, a major logistics centre for furniture company Indoor Group.

Market practices

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

The industrial/logistics market in 2015

Vacancy rates for modern industrial and logistics properties have increased in recent years due to both new space supply and weak demand pressured by economic conditions. According to Catella Property, the vacancy rate for manufacturing and warehousing properties stood at 6.9% in the Helsinki metropolitan area at the end of 2014.

Due to weak demand, rents have decreased slightly or remained fairly stable. However, in international comparison, rental levels for modern logistics premises are relatively high, partly explained by high construction costs. In the KTI database, the upper quartile rental levels for the best logistics areas in Helsinki metropolitan area and surrounding municipalities stand at some €10-11 per sqm. In the airport area in Vantaa, the rents are clearly higher.

Due to the Certeum transaction, logistics and industrial properties' transaction volume was highest of all sectors in 2014. The total volume amounted to €1.3 million, of which the Certeum deal represented almost 70%.

"Logistics development concentrates in municipalities surrounding Helsinki metropolitan area"

New development of logistics and warehouse properties continues to be active, especially in the municipalities surrounding Helsinki metropolitan area. During 2014, however, no major logistics projects were completed. The

main projects underway include S Group's 77,000 sqm first phase of the Freeway project in Sipoo, as well as Stockmann's distribution centre in Tuusula. In the Vantaa Aviapolis area, DB Schenker is developing a 52,000 sqm logistics centre, due for completion in the first half of 2015. One major project in the industrial property sector completed in 2014 was Yandex's 36,000 sqm data centre in Mäntsälä, also in the vicinity of Helsinki metropolitan area.

The investment performance of industrial / warehouse sector has been relatively poor in recent years. In 2014, the sector produced a total return of 4.5% (3.7% in 2013). Net income remained at a high level, at 7.9%. Capital growth remained negative.

4.7 Hotels

Stock

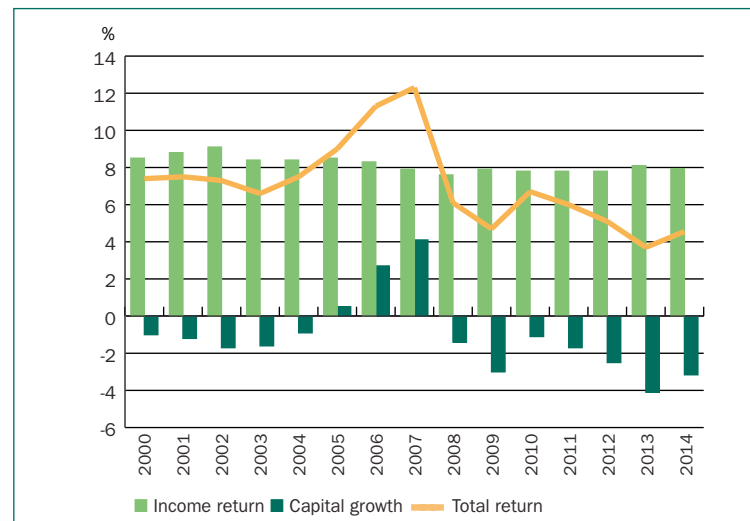
According to the Statistics Finland, there are 626 hotels in Finland, comprising some 51,000 rooms. In January-November 2014, the occupancy rate of hotel rooms stood at 52.2%.

Players

The two biggest hotel property owners in Finland are CapMan's hotel fund, which owns 39 hotel properties in Finland, and the Swedish Pandox with a portfolio of 14 hotels and one conference centre. Most of the biggest institutions also hold some hotel properties in their portfolios. Some operators, S Group in particular, also own some hotel properties.

The main hotel operators in Finland include S Group, Restel and Scandic, which all together account for more than half of the supply of hotel rooms. S Group is the biggest

Total return on industrial property investments, 2000-2014



Source: KTI Index

hotel operator in Finland, with more than 50 hotels across the country. In 2014, the group opened a new hotel, Hotel Tornio Tampere. Restel, who operates hotels under the brands Cumulus, Rantasipi and Holiday Inn, for instance, currently has 49 hotels in its chains. In early 2015, a new Hotel Indigo Boulevard will be completed in central Helsinki. Finlandia Hotels and Scandic Hotels have 27 hotels each, followed by Best Western with 17 hotels.

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

Hotels market in 2015

According to Statistics Finland, the amount of nights spent in hotels decreased by 2.2% in January-November 2014 compared to the previous year. The decrease was mainly due to the decrease in the number of Russian tourists visiting Finland. Russians remained, however, the biggest visitor group in the Finnish hotels.

According to the KTI Index, hotel properties delivered a total return of 3.5% in 2014 (6.0% in 2013).

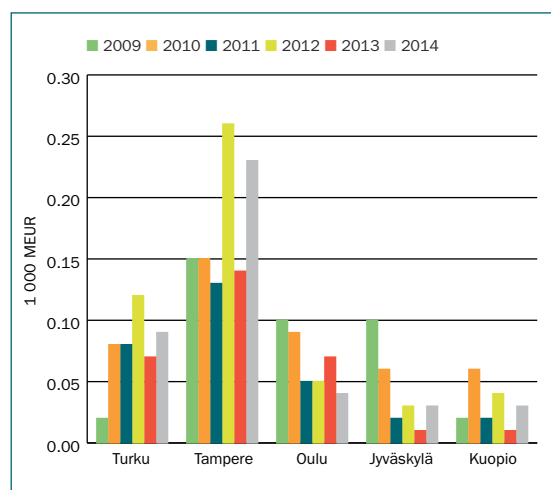
5 Property markets in different regions – outlook for 2015

The Helsinki metropolitan area, consisting of the city of Helsinki and the immediate neighbouring cities of Espoo, Kauniainen and Vantaa, is the dominant region in the Finnish property market. Its dominance is the most prominent in the office markets: some 45% of the total office stock in Finland is located in the Helsinki metropolitan area. Measured by value, its share is some 60%. The institutional property investment market is also concentrated in the Helsinki metropolitan area. Of all the properties included in the KTI Index, almost two thirds are located in the Helsinki metropolitan area. Its dominance can also be seen in the transactions market: in 2014, some 54% of all transactions were made in the Helsinki metropolitan area. The Helsinki metropolitan area is well-recognised among foreign investors, many of whom only invest in the capital region.

The second-tier markets – typically the regional growth centres of Tampere, Turku, Oulu and Jyväskylä – are traditionally popular among domestic institutions but have also attracted some international capital since the mid-2000s. In these cities, there are some local players that operate only in these market areas. Many large domestic investors define the Helsinki area and these “growth centres” as target markets in their investment strategies.

Property markets in smaller city regions are traditionally dominated by local investors and owner-occupiers. Some major domestic players invest in smaller cities, but typically concentrate on certain select sectors such as residential or retail, which are driven by consumer markets.

Transactions volume in other major cities



Source: KTI

5.1 The Helsinki metropolitan area

In many respects, the Helsinki region has a dominant position in Finland, which means that its importance is also significant from the property market perspective. The entire Helsinki region consists of 14 municipalities, and even though the land area of the region only accounts for 1.2% of the area of the entire country, it accommodates 26% of the Finnish population, accounts for some 31% of all jobs and delivers some 35% of the Finnish GDP.

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, has a population of 1.1 million people. Most major company headquarters, as well as government agencies, are located in the Helsinki metropolitan area. Jobs, administration activities, and the majority of the population of the Helsinki region are concentrated in these cities.

Population:	Helsinki:	621,000
	Espoo:	264,000
	Vantaa:	210,000
	Helsinki region:	1,414,000

Economic base: Professional and financial services, information industries, logistics, public sector services

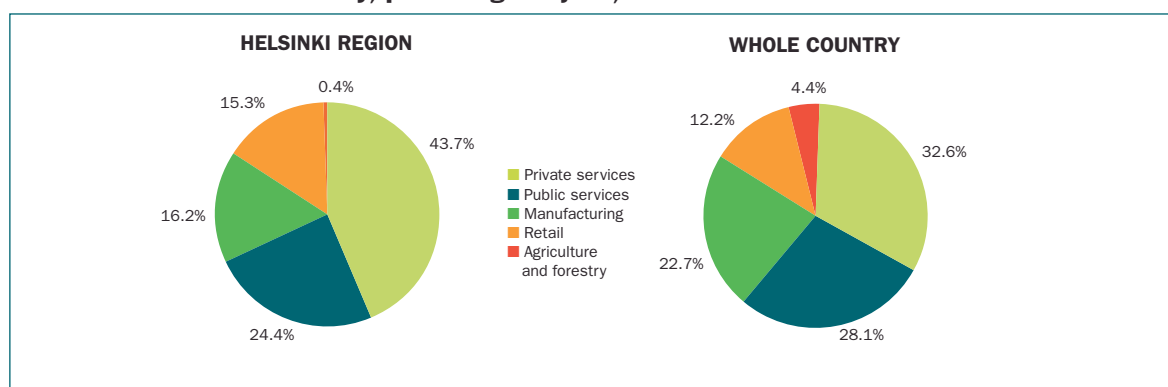
In the Helsinki region, the proportion of jobs in the private service sector is significantly higher – 44% – compared to 33% across the entire country. On the other hand, the proportion of industrial occupations is clearly lower (16%) than in the entire country (23%). Specialist professional services, as well as high-tech industries, wholesale trade and logistics businesses have a stronger role in the Helsinki region than in the whole country. The region's position as the administrative centre of Finland also impacts the knowledge profile and structure of jobs. Of the industrial occupations in the region, some 40% are in construction.

The amount of production remained stable in the Helsinki region in 2014, but the number of jobs decreased slightly. Of the different sectors, occupations in information and media sectors as well as in professional and consumer services continued increasing, whereas the growth was negative in wholesale and retail trades and logistics. Demand for local services is enhanced by the continuing increase of population, which also maintains the level of housing construction.

"The governance structure of the Helsinki metropolitan area is being discussed actively – no solutions expected in this election period?"

The governance structure of the Helsinki metropolitan area has been discussed at quite some depth in recent years, and it is positioned high in the current government's structural reform agenda. The draft legislation for a new metropolitan governance structure was sent for comments to the municipalities in December 2014. The legislation covers matters concerning land-use, housing and transportation in the area, and would concern the 14 municipalities in the region. The main idea behind this legislation is to control sub-optimisation caused by municipal decision-making in matters that eventually concern the whole region. The initial aim was to enforce the legislation and elect the members for the governance in connection with the municipal elections in 2017. However, the proposed new administrative structure received many critical comments, and various alternative means were presented to develop coordination and cooperation between the state and municipalities in the area. At the moment it seems unlikely that the legislation will be introduced to the current parliament.

The structure of the economy, percentage of jobs, 2013



Source: Helsinki Chamber of Commerce

Main office areas in the Helsinki metropolitan area

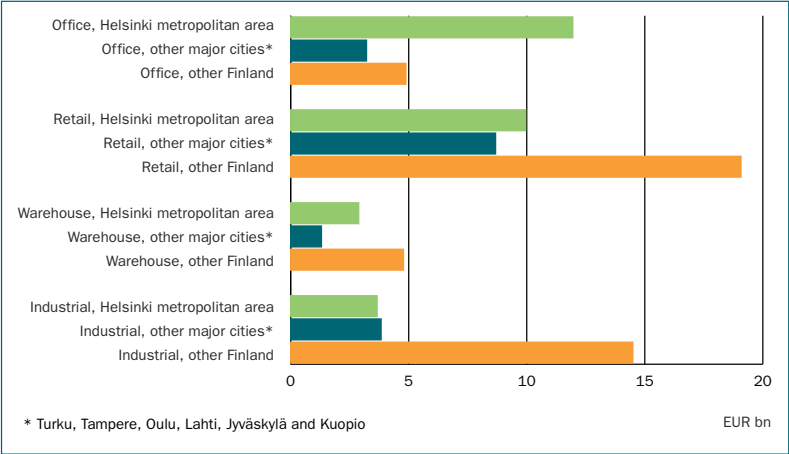


Within the Helsinki metropolitan area property markets, the Helsinki central business district (CBD) has an undisputable position both as an office location and as a prime retail market location. Outside the CBD, other prime office areas include Ruoholahti in Helsinki, Keilaniemi and Leppävaara areas in Espoo and the airport area in Vantaa. In the retail markets, in addition to CBD and Leppävaara, other important areas include regional centres of Tapiola in Espoo and Tikkurila in Vantaa. Main shopping centres are located

in Itäkeskus (Itis), Leppävaara (Sello), Aviapolis (Jumbo) and Matinkylä (Iso Omena), as well as in the Helsinki CBD (Kamppi, Forum, Galleria Esplanad, Citycenter and Kluuvi).

Of around 8.6 million sqm total stock of offices in the Helsinki metropolitan area, some 5.8 million sqm is located in Helsinki. Espoo accommodates about 1.8 million sqm and Vantaa about 0.9 million sqm of offices. Retail space stock of the metropolitan area amounts to about 3.8 million sqm. Of this, about 50% is located in Helsinki.

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



Source: KTI

5.1.1 Helsinki

The newly completed Helsinki city master plan draft is based on an estimate that predicts there will be 860,000 inhabitants and 560,000 jobs in Helsinki in 2050. The plan outlines, among other things, increasing density in the city centre, and northward extension of the inner city towards Pasila. In the plan, new rail connections are being planned, as well as the transformation of current incoming traffic routes into urban city boulevards with new mixed neighborhoods of housing and workplaces built around these city boulevards. Areas with increasing commercial property supply include, for instance the extending Pasila-Vallila-Kalasatama axis, as well as the traditional office and industrial areas Pitäjänmäki and Herttoniemi. One of the most important future housing development areas is the Malmi airport area, where up to 25,000 people are planned to be accommodated.

"The new Helsinki master plan is based on a growth estimate of 250,000 new inhabitants by 2050"

Helsinki Central Business District

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

Office users in the city centre are mostly companies offering business-to-business services – business consultancies, law firms, investment banks, etc – together with some company headquarters and ministries' offices. The majority of the office stock in the CBD was built in the late 1800s and early 1900s, but it is mostly well maintained and refurbished, and responds well to the needs of occupiers. Despite the increase of supply of modern office stock in other areas in the Helsinki area, the Helsinki CBD has maintained its attractiveness and remains the most preferred office location in the region.

In the CBD, the supply of modern office space has increased markedly in recent years, mainly through the development of Töölönlahti area in the vicinity of the main railway station. The head offices of Alma Media, UPM, KPMG and EY moved in the area during 2013 and 2014. In total, the area accommodates some 40,000 sqm of office space. The completion of the buildings freed the companies' old premises – also located in the CBD – which have been redeveloped and mostly rented to various kinds

of professional service firms. The Töölönlahti area will also accommodate the new central library, the construction of which is scheduled to start in late 2015 and to be completed in 2018. In 2014, new office space was also completed through the refurbishments of Forum shopping centre and Kampin Huippu in Kamppi.

"Helsinki CBD maintains its attractiveness also in challenging economic conditions"

According to Catella Property, the office vacancy rate in the Helsinki CBD currently stands at 6.4% compared to 12.5% in the whole Helsinki metropolitan area. Lower vacancy rate is another proof of the area's attractiveness, which has been maintained also in more difficult economic conditions.

KTI's rental index for Helsinki CBD offices showed an increase of 2.6% in 2014. Top rents remained well above €30 per sqm per month, and the median market rent increased to €27 per sqm in new agreements started during 2014. In the KTI rental database, the amount of vacant office space remained stable. Due to the increased supply and uncertain economic conditions, the outlook for rental development has, however, turned slightly less positive, and rental levels are expected to remain stable in the near future.

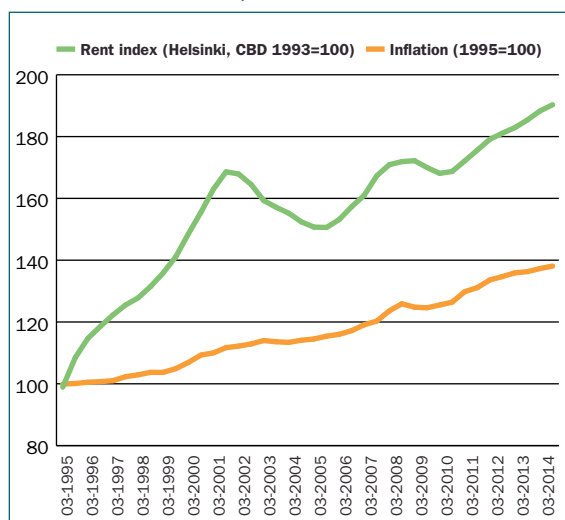


Photo: NCC / Erik Mårtensson

Helsinki CBD (KTI Index area)



KTI Rental Index, Helsinki CBD offices

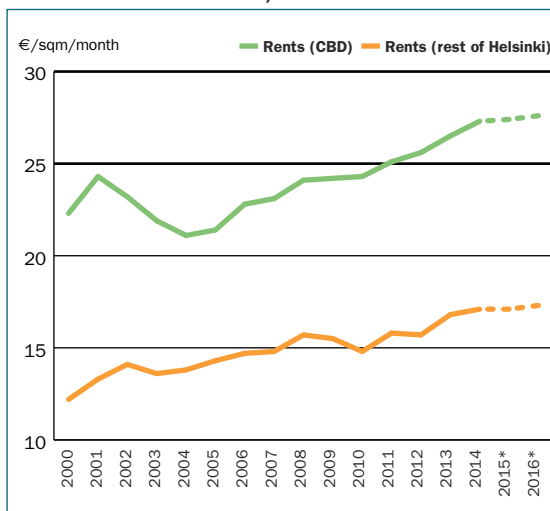


Source: KTI and Statistics Finland

According to the RAKLI-KTI Property Barometer survey, prime office yields for the Helsinki CBD continued decreasing slightly in 2014, with the average standing at 5.3% in late 2014. Yields for the very best properties are clearly lower, even below 5%. In 2014, two major office transactions were carried out in the CBD: in the first quarter Deka Immobilien acquired the Sanoma House for €176 million, and in December, the Swiss AFIAA bought the Brondankulma property for some €60 million.

Healthy rental growth and decreasing yields have maintained the increase in market values in Helsinki CBD

KTI forecast, Helsinki CBD offices and the rest of Helsinki, median rents



Source: KTI

offices in recent years. In the KTI Index, the capital growth of central offices was 1.9% in 2014.

Main shopping centres in the CBD include Kamppi and Forum in the Kamppi area, Galleria Esplanad and Kluuvi in the Kluuvi area, and Citycenter next to the main railway station. The main shopping streets include Aleksanterinkatu and Northern Esplanade and the streets connecting these two streets. The traditional Stockmann department store is located between these two streets. In recent years, extensive pedestrian areas have been developed around the most important shopping locations.

"Several large stores
were opened in
Helsinki CBD in 2014"

The amount of vacant retail space remains low in the CBD, although it increased slightly during 2014. However, the importance of micro location has become even more important in renting the premises. In the KTI rental database, the upper quartile of retail rents stands now at some €130 per sqm per month. In 2014, some exceptionally large retail premises were rented in the CBD: electronics store Gigantti opened a shop in Forum, a sports store XXL in Kluuvi and the furniture store Habitat in Citycenter. In the RAKLI-KTI Property Barometer, the outlook for the CBD's retail rents turned negative in late 2014.

The sluggish demand for office space has boosted old office buildings' redevelopment projects in the city centre. In 2015, two new hotels will be opened, and redevelopment of two more is scheduled to be started in the centre or in its vicinity. Also, some residential projects are being planned or underway, mostly in buildings that have originally been built for residential use but that have later been changed to offices.

Ruoholahti – Salmisaari

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

Office rents in Ruoholahti currently stand at some €21-23 per sqm per month on average. During the past couple of years, the amount of vacant space has increased markedly in the area, due to, for instance, the closing of the major Nokia Research Center. Despite the abundant supply, rents have not decreased in the area, as the investors prefer to suffer temporary vacancy, which they expect to ease as soon as economic conditions improve. The vacancy rate in the area has remained stable within the past year, and currently stands slightly below 15%.

Investors in the area include domestic institutions and property companies as well as some international funds. In 2014, the only significant office transaction was the AXA's acquisition of a €41 million asset from Aberdeen's fund. There is substantial development potential in the Salmisaari area, but new projects are not likely to be started before the space demand picks up.

"Active development in
the Jätkäsaari area"

Next to Ruoholahti is the growing Jätkäsaari area, which was freed for alternative use after the harbour moved its operations to Vuosaari. The West Harbour serving passenger ferries to Tallinn and St Petersburg is still located in the area, and a major extension is currently being planned in the terminal. Residential development is currently active in Jätkäsaari. The area currently accommodates some 3,000 inhabitants, and the number is expected to double by 2017. The construction of a 16-store Clarion hotel and congress centre is also scheduled to be started in 2015. SRV is developing the Wood City block in the area, consisting of one office, two residential buildings and one hotel building. Construction is planned to be started in 2015.

The City of Helsinki and Skanska are currently negotiating the development of the 8,200 sqm Telakkaranta land area, where residential, commercial and hotel properties would be developed. The development is dependent on the confirmation of the plans for the area. The construction is being planned to be started in 2016.

Pasila – Vallila – Sörnäinen – Kalasatama – Ruskeasu

Other traditional office areas situated somewhat out of the city centre include Pasila, Sörnäinen and Vallila. These areas are characterised by a multifaceted office supply. There are significant differences in rental levels and occupancy rates between the new and old property stock in these areas.

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

"Pasila area is
undergoing major
development"

Both commercial and residential property stock in Pasila are planned to increase significantly. In the city's long-term plans, the area would accommodate some 60,000 jobs and 23,000 residents, compared to current figures of 23,000 and 10,000, respectively.

Renovation of the area will be started in the Central Pasila area, in the surroundings of the current Pasila railway station. The so called Tripla project will be started in 2015 and is estimated to be completed by 2021. The three-block complex will comprise some 183,000 sqm of office, retail, hotel and residential premises, as well as a multi-use arena and a public transport terminal. YIT has been selected as developer in the project, and it is currently looking for investors to finance the development. There are also major plans to develop, for instance, the Ilmala and Northern Pasila areas north of the railway station. These areas will accommodate both residential and office properties.

"The train connection to the airport will be opened in summer 2015"

The traffic connections to Pasila will be enhanced further through the direct train connection to the airport, when the Ring Rail Road will be completed in July 2015. The City is also planning a so called City Rail Loop project (Pisaraata), which will be an urban railway line for commuter trains under the Helsinki city centre. The loop-shaped railway would start in Pasila and run in a tunnel via Töölö, Helsinki city centre, Hakaniemi and back to Pasila. The government and the City of Helsinki have just recently reached agreement on the financing of the project, and it will most probably be included in the current government's last amending budget.

There is plenty of office development potential in the Pasila area. Most of the projects have, however, been postponed due to low space demand. Sponda, together with YLE Pension Fund, is a major developer in the area. Sponda is currently developing the first 15,000 sqm phase of the Ilmalanrinne office complex, where consulting engineering group Sweco will be the main tenant.

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, banks and telecommunications companies. OP-Pohjola Group is currently carrying out a major refurbishment, extension and new development project for its head office in Vallila. The new 58,000 sqm building will be completed in spring 2015. In total, the campus will accommodate about 3,000 employees. Amer Sport's head office was completed in the area in 2014.

The amount of vacant office space in the Pasila-Vallila-Sörnäinen area decreased markedly in 2014. Rental levels vary significantly depending on the quality and micro location of the space, with average rents for older premises standing at €13-15 per sqm per month, and for modern premises at well above €20 per sqm.

Next to Vallila is Sörnäinen, a traditional industrial and harbour area, which currently accommodates many refurbished office buildings. Adjacent to Sörnäinen is Kalasatama, where land was released when the harbour moved its operations to Vuosaari. Kalasatama is another area where living, working and public and private services will be combined, and where development requires significant investments in infrastructure and extensive new property development.

"The construction of shopping centre REDI is about to be started in Kalasatama"

At the moment, construction work in Kalasatama is concentrated on residential projects. The number of residents is currently around 2,000; when completed in 2030, the area is planned to accommodate some 20,000 people and some



Photo: Skanska

8,000 jobs. Several developers are planning office projects in the area, although none are currently under construction. Around the metro station, a 180,000 sqm complex will be constructed comprising residential, office and retail space, as well as public services and a public transport hub. In the centre of the area, SRV is about to start construction of a €480 million shopping and leisure centre REDI, consisting of 64,000 sqm of retail space. In addition to SRV, investors in the project include pension fund Ilmarinen, OP-Pohjola Group's funds as well as LocalTapiola's insurance and life funds. The centre is estimated to be completed in 2017.

Next to Pasila is the developing Ruskeasu office area with mostly modern space supply. The area currently accommodates the first two phases of Skanska's Manskun Rasti project, as well as the first phase of NCC's Aitio Business Park. Both concepts are planned to be extended with new phases. One office building for the National Institute for Health and Welfare is currently under construction.

North of eastern Pasila is the traditional residential area Käpylä. The surroundings of the Käpylä railway station accommodate a relatively modern office stock. One new office building is currently under construction in the area by VVT Property Fund.

Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the Helsinki city centre, is an old industrial area that had been converted into mainly office use in the 1990–2000s, comprising both multi-tenant office buildings and some head office type properties as well as some modern business parks. Pitäjänmäki is one of the areas in Helsinki that has suffered from fluctuating demand, which has caused volatility in rents and vacancies.

Because of the heterogeneous space supply, rental levels vary markedly between the different areas and buildings in Pitäjänmäki. In older buildings in particular, investors have been forced to attract tenants through relatively low rents, whereas the modern buildings closer to the railway station have retained their attractiveness among, for example, IT and professional service companies. The amount of vacant space remains high in the area, at some 90,000 sqm, representing a vacancy rate of 16.2%, according to Catella Property. Many institutions have significant holdings in the area, and in major investors' portfolios, occupancy rate stood at only some 79% in late 2014. Due to low demand, investors are looking for opportunities for changes of use. New construction in the area has, in recent years, concentrated mainly on residential development. Currently, however, Peab Invest is developing an 11,000 sqm Ultimes Business Garden's first phase in the area, planned to be completed in 2016.



Photo: SRV

Eastern Helsinki

East of the central city area is Arabianranta area, which has recently seen rapid development. With the adjacent Kumpula area, the area currently accommodates about 10,000 residents, 8,000 jobs and 12,000 students. Companies in the area include, for example, design and media firms. The area also accommodates the shopping centre Arabia, and the office and retail centre Arabiakeskus, both of which have been developed within old industrial buildings. Residential construction has been active in the area in recent years.

Herttoniemi is an area five kilometres east of the CBD, adjacent to both the eastern radial route and the metro line. Herttoniemi is an old warehousing area that has gradually transformed into a more diversified area with office and retail supply. Office vacancy rate has stayed above 20% for several years, although the absolute amount of vacant space only amounts to some 23,000 sqm.

Further east is the Itäkeskus area. The area's location at the junction of Ring Road I and the eastern radial route, as well as by the eastern metro line, supports its development as an attractive area for retail and living. The Itis shopping centre is one of the largest shopping centres in northern Europe with a gross leasable area of 115,000 square metres. The shopping centre's major refurbishment project was completed in 2014, through which some 11,000 sqm of new retail space was developed. Kesko will start the construction of a 26,000 sqm shopping centre, where a new Citymarket will be opened in 2017. This is the first phase of an extensive project that will comprise 62,000 sqm of retail space. Upon completion of the first phase, the old hypermarket property will be demolished.

Vuosaari, the new harbour area, is another area that has been developing rapidly in recent years. The harbour currently accommodates about 2,000 jobs as well as an extensive logistics property stock. Next to the Vuosaari metro station is the 21,000 sqm shopping centre Columbus. Vuosaari and the adjacent Rastila areas are also rapidly developing residential areas.

5.1.2 Espoo

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

Office vacancy rates have been a problem for many areas in Espoo for the past few years. Despite high vacancy rates, new office development has remained active. In 2014, however, only one 14,000 sqm office construction project was completed in the Matinkylä area.

In the KTI rental database, only some 75% of the office premises owned by large investors were leased in late 2014. Vacant office premises can be found in various areas in Espoo, including, for instance, Kilo-Mankkaa, Niittykumpu-Olari, Keilaniemi and Leppävaara areas.

The construction of the new western metro line is boosting the property markets in the vicinity of the new stations. The metro out to Matinkylä will start operations in 2016, after which it will be extended by another five stations, ending in Kivenlahti, by 2020.

Keilaniemi – Otaniemi – Tapiola – Niittykumpu – Matinkylä

The five established commercial property submarkets in southern Espoo – Keilaniemi, Otaniemi, Tapiola, Niittykumpu and Matinkylä – will accommodate new metro stations. Some of these areas have, in recent years, suffered from serious oversupply of office premises.

"The western metro line will start operations in 2016"

Keilaniemi is a modern office area accommodating several major head office properties including Microsoft Mobile, Kone, Neste Oil and Fortum, as well as some modern business park concepts. Average rental levels are slightly lower than in Ruoholahti, although the top rents are close to €25 per sqm per month.

Keilaniemi has suffered from relatively high vacancies in modern office buildings in recent years. In KTI's rental database, the occupancy rate for Keilaniemi offices stood at some 77% at the end of 2014. There are several major office development projects being planned in the area, including some high-rise office and residential buildings close to the metro station, but these are not expected to be started before the rental market conditions improve significantly. One of the planned high-rise buildings would accommodate the head office of Fortum, and the old Fortum Tower is planned

to be converted to residential use. In 2014, one major transaction was carried out in Keilaniemi area, where AXA's fund acquired one of the former Nokia buildings, currently rented to Microsoft Mobile, from Exilion's fund.

East of Keilaniemi is the Otaniemi area, where Aalto University is located. The University has decided to centralise its main campus in the area, and will both redevelop existing buildings and develop a new building with a gross area of 34,000 sqm, scheduled to be completed in 2017. In total, some €300 million will be invested in the campus. The Otaniemi area also accommodates several research institutes as well as business parks targeted at high-tech companies.

"Tapiola centre is undergoing major redevelopment"

Tapiola is a traditional retail, office and residential area, which is currently undergoing major redevelopment. The project includes major investments in both transportation infrastructure as well as in existing and new property stock. The first phase of the Ainoa shopping centre was opened in late 2013, and the second phase comprising some 20,000 of leasable space, is under construction. The centre will accommodate a Stockmann department store, whose old building will be demolished. Tapiola area also accommodates a diversified office stock, which is also undergoing a major redevelopment. Some older buildings have been redeveloped for modern office use, and some will be demolished and redeveloped for some alternative use.

Matinkylä, one of the stations along the metro line, is also one of the significant retail centres in Espoo, as well as a developing office area. Iso Omena shopping centre is located in Matinkylä. The centre is currently being redeveloped and extended and will accommodate the Matinkylä metro station. The redevelopment – scheduled for completion in late 2016 – comprises some 25,000 sqm of new retail space, as well as 15,000 sqm of residential apartments. In 2014, Citycon acquired the 40% share of the centre from GIC, and currently owns the whole centre. Next to Iso Omena, the Eventes Business Garden was completed in late 2014.

West of Tapiola, a Suurpelto area is currently being developed. In the first phase, construction is concentrating on residential buildings but within the next 10–15 years plans for the whole area include the construction of residential, offices as well as premises for public services.

West of Matinkylä, the traditional retail and light manufacturing area of Suomenoja is located. The area currently accommodates mainly big box retail properties. Julius Tallberg-Kiinteistöt is currently developing an 8,200 sqm retail property, which is mainly rented to XXL sports

and outdoor shop. Construction is estimated to be completed in the first half of 2015.

Leppävaara

Along Ring Road I and by the western railroad is the Leppävaara area, comprising a diversified, rapidly expanding office stock, shopping centre Sello, a traditional shopping mall and some modern residential supply. The area is characterised by business park complexes with several buildings, including NCC's Alberga, NCC's and Lemminkäinen's joint project Polaris, Hartela's Quartetto and SRV's Derby Business Park. The fourth phase of Alberga Business Park is currently under construction, to be completed in late 2015. Additional phases are being planned for both Polaris and Alberga.

Leppävaara area continues attracting investors. In early 2014, Union Investment acquired the third phase of Alberga Business Park – having previously also invested in the two earlier phases of the project. Niam bought the Derby Business Park, and AXA invested in Polaris Business Park.

"Leppävaara offices
have attracted foreign
investors"

The amount of vacant space has increased in Leppävaara during the past years, and, according to Catella, vacancy rate currently stands at 14.2%. The vacancy rate is expected to increase further, as Nokia will concentrate its operations in Karaportti area. Due to abundant supply, rents for modern premises have decreased slightly, and currently stand at some €18-20 per sqm.

In the Perkkaa area in Leppävaara, various kinds of property developments have been planned during the past years. The area has been planned to accommodate an extensive shopping and leisure centre, as well as an IKEA store. In 2014, the city confirmed the plan for office development, and Tieto Oyj and Rovio Oy planned to start the construction of their head offices in the area. However, even these plans have been postponed – if not cancelled – due to challenging economic conditions.

Espoo centre

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

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



Photo: SRV

In early 2014, the plan for the Lommila area, situated next to Espoo centre at the junction of the Turku motorway and Ring Road III, was approved. The plan comprises a 110,000 sqm shopping centre, as well as additional retail, office and hotel premises of some 30,000 sqm. The shopping centre project is led by HOK-Elanto and Kesko, both of whom plan to open grocery shops in the centre despite the fact that the plan limits the possibilities to dedicate space for daily goods to significantly smaller premises than in traditional hypermarkets.

5.1.3 Vantaa

In Vantaa, the most important commercial property market areas are concentrated around the airport and its surroundings, as well as in the traditional Tikkurila centre. The development of the new Ring Rail Line, due for completion in 2015, has boosted property development around the station areas, including abundant residential projects as well as retail and service properties.

Aviapolis

The Aviapolis area around the Helsinki-Vantaa Airport has developed rapidly during the past few years. The main players in the area include the City of Vantaa, Finavia and its daughter company LAK Lentoasemakiinteistöt, all major property developers and several property companies. There are currently some 17,500 inhabitants in the area and further plans for some 6,500 new inhabitants. The area accommodates about 1,100 companies and some 35,000 jobs.

**"New Ring Rail Line
is boosting property
development in Vantaa"**

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

Commercial property stock in the Aviapolis area includes modern office premises, logistics properties and abundant retail supply. Besides properties directly related to the airport, Aviapolis is an important logistics hub with some 800,000 of warehouse and logistics premises – most of which is rather modern and accommodated by, for instance DHL, DB Schenker and Itella Logistics. DB Schenker is currently developing a new 52,000 sqm logistics centre in the airport area. Finavia is also planning to build an extension to the airport terminal.

Modern office space supply is abundant in the area, including the World Trade Center in the airport area, Technopolis Helsinki-Vantaa Campus, as well as several business park complexes by Ring Road III. After several years of active new development, no new office properties were completed in 2014.

There are major plans for developing residential and commercial properties around the new train station area. The commercial property construction of the station area, called Aviapolis Station, started in late 2014 with a start of Skanska's Aviabulevardi office project, and construction of a hotel is scheduled to be started soon. Also Technopolis is developing an office building in the area, to be completed during the second quarter of 2015.

The 85,000 square metre Jumbo shopping centre is the major retail centre in the area. In the immediate neighbourhood there is also the Flamingo leisure centre comprised of hotel, office and leisure premises. In the vicinity of Aviapolis, the Pakkala and Tammisto areas are also important retail areas favoured by retail park and big-box retail units such as outlets for motor vehicles, furniture and gardening. In early 2014, XXL opened a store in the Tammisto area.

The most significant transactions in the area in 2014 were the acquisitions of the Plaza Business Park Presto by CapMan's Nordic fund, and the purchase of two commercial properties by OP Rental Yield fund.

The increase in supply has resulted in an increase in the office vacancy rate in the area, currently standing at 19%, according to Catella. Office rents in the best premises in the Aviapolis area are slightly lower than in the best areas in Espoo. Overall, rents have remained stable or decreased slightly.

Tikkurila

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

**"Ring Rail Road will
enhance Tikkurila's
position as an important
transportation hub"**

The City of Vantaa is developing the infrastructure, and several property investors are making new investments in the area. In early 2015, the first phase of office and retail centre Dixi was completed, and the construction of the second phase is scheduled to be started in 2015 and completed in late 2016. NREP Nordic Strategies Fund invested in the shopping centre in 2014, and the office building is owned by pension fund Etera. Residential development is also active in the area.

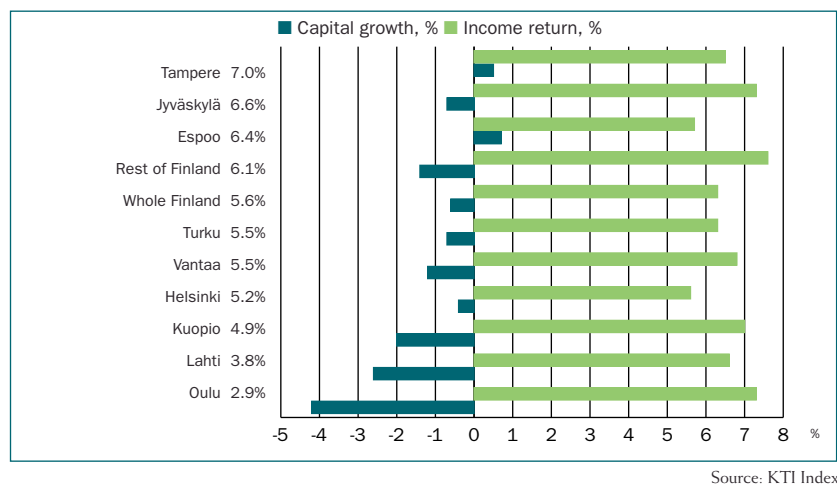
Kivistö

Vantaa's biggest development area is in Kivistö, close to Ring Road III and the Hämeenlinna motorway alongside the new Ring Rail Line. Some 30,000 new inhabitants and nearly as many jobs are being planned to be accommodated in the area. The developing area will also accommodate the Housing Fair in summer 2015. The biggest individual project planned in the area is a 110,000 sqm shopping centre close to the new Kivistö railway station. The construction of the first 60,000 sqm phase of the project is estimated to be started in 2016.

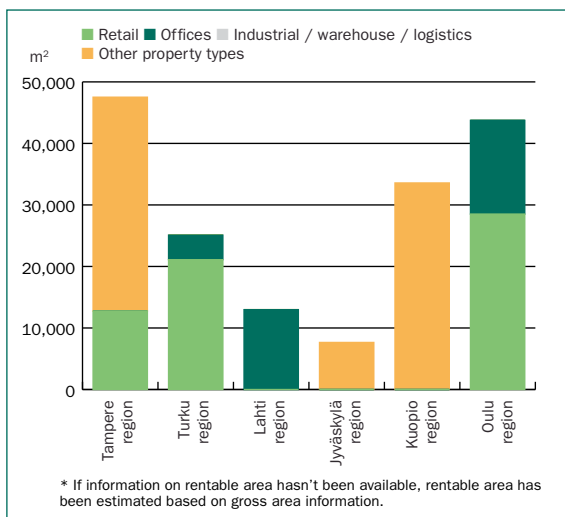
Myyrmäki

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

Total returns in Finnish cities



Building projects under construction in December 2014, including both new and redevelopment projects, Rentable area*, sqm



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

Tampere

Location: 170 km north of Helsinki; the biggest inland city in the Nordic countries

Population: Tampere: 223,000
Tampere region in total: 360,000

Tampere is the largest inland city in the Nordic countries. Tampere is an old industrial city that has recently attracted high technology businesses as well as service companies. Technology expertise areas in the Tampere region include information technology, machinery and automation and healthcare technology. The Tampere region consists of eight municipalities pursuing active cooperation in developing the business environment in the area.

The city of Tampere is currently investing in a transportation network in the area. The accessibility of the city centre is currently being enhanced by a tunnel construction project in the northern side of the city centre. At the railway station, a modern public transportation hub is being planned. A new tramway is also being planned, with operations scheduled to start in 2019. Many new underground parking facilities are being planned in the centre; the centre itself will be turned into mainly light transportation and pedestrian areas.

As the second biggest city region, Tampere is also the most active property market area in Finland outside the Helsinki region. The region has attracted both domestic and international real estate investors.

"Major investments in the transportation network in Tampere"

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

The amount of vacant office space has recently increased due to both new supply, as well as major reorganisations of Nokia, and currently exceeds 10%. In 2014, the office stock was increased by the completion of one 7,500 office building in Sarankulma by Varma. Despite the high vacancy rate, office construction continues to be active. Technopolis has started an 11,900 sqm project in the vicinity of the university, and the Finnish University Properties are constructing

educational and office premises in the technical university's campus area in Hervanta. There is also a major extension project ongoing in the university hospital area.

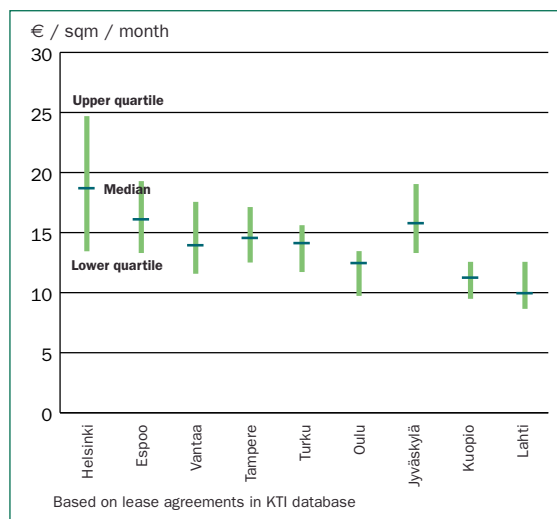
The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to Hämeenkatu.

In 2014, the 15,000 sqm Lielahतिकeskus in the Lielahiti area, as well as the 11,000 sqm Partola Retail Centre in Pirkkala were completed. Retail space supply was also increased in the city centre due to the extension of the Stockmann department store in Hämeenkatu. The first 15,000 sqm phase of the Ikano Retail Centre is underway in the Lahdesjärvi area, south of the city centre. In the vicinity of Koskikeskus, Sponda plans to develop a 55,000 sqm Ratina shopping centre, the schedule of which has been postponed markedly due to tight economic conditions.

"Construction continues to be active in Tampere"

There are plans to build a major multi-use arena in the vicinity of the Tampere railway station. The so called Sori deck project also includes office and residential premises. However, in 2014, NCC withdrew from the project, and the city is currently looking for new partners. In the vicinity, Elo's Tornii Tampere hotel, comprising 305 rooms, was completed in late 2014. Rental residential development activity has also recently been active in Tampere.

Prevailing office rents in major Finnish cities, autumn 2014

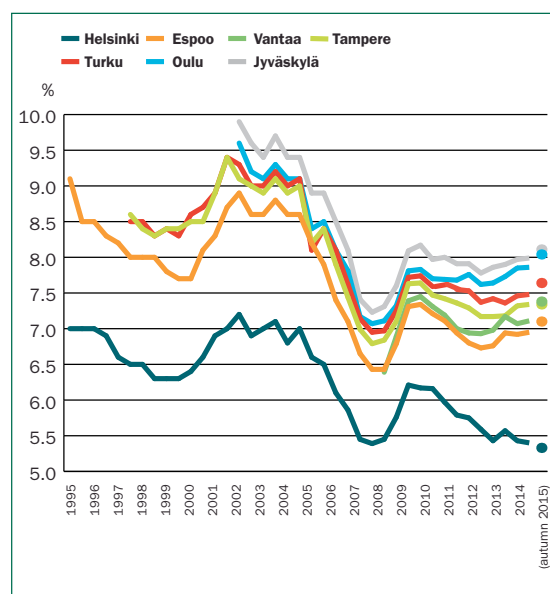


Source: KTI



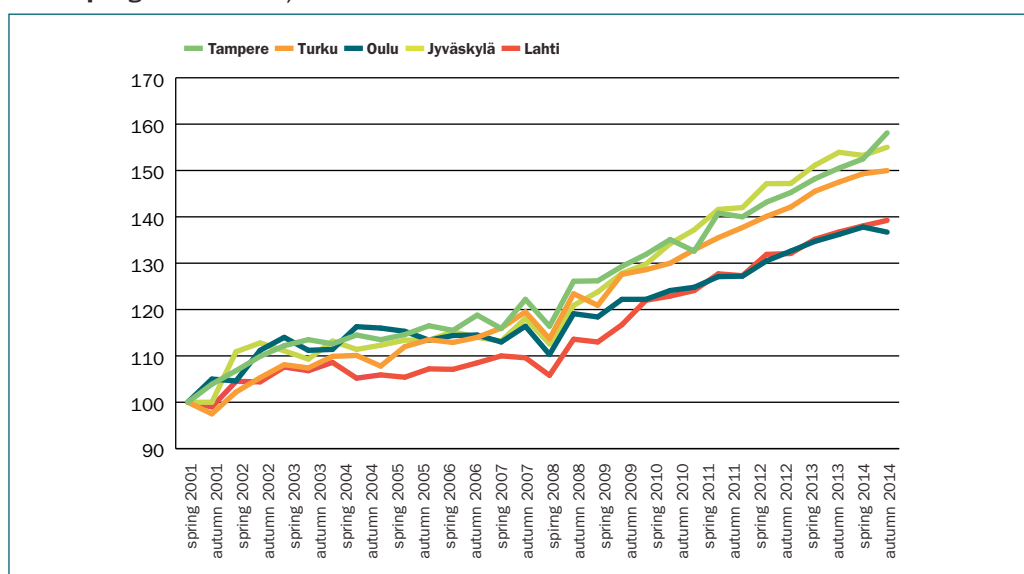
In 2014, the biggest property transactions in Tampere area was Sponda's acquisition of the four buildings of Tulli business park for some €64 million from UBS. Also Sagax invested in two industrial properties.

Prime office yields in major Finnish cities



Source: RAKLI-KTI Property Barometer

Residential rent indexes in Tampere, Turku, Oulu, Jyväskylä and Lahti index spring 2000 = 100, non-subsidised and subsidised new rental leases



Source: KTI

Oulu

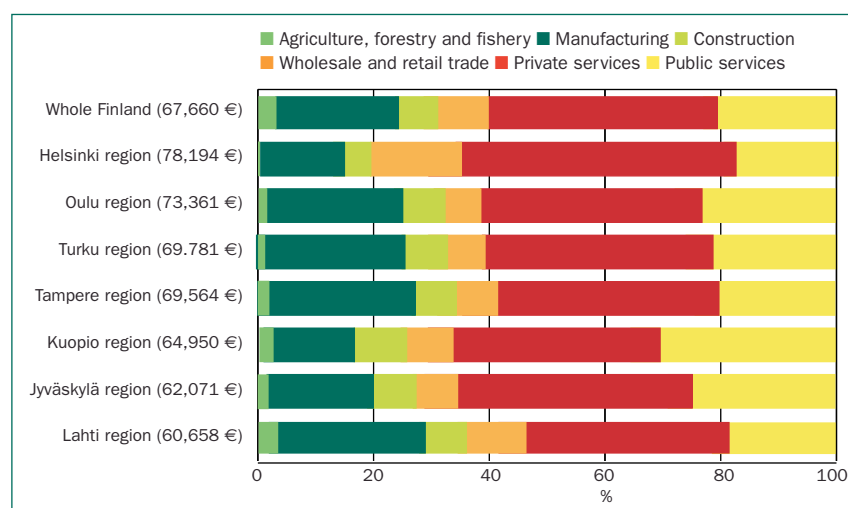
Location: 600 km north of Helsinki
Population: Oulu: 196,000
Oulu region in total: 241,000

The City of Oulu became the fifth biggest city in Finland in the beginning of 2013, as the surrounding municipalities of Haukipudas, Kiiminki, Oulunsalo and Yli-Ii merged with Oulu. The Oulu region has been one of the fastest growing city regions in Finland since the mid-1990s. Oulu is a university, science and technology city, the influence of which covers all of northern Finland – about one-half of the area of the entire country. The emphasis of the region's

economic structure is on services. Information technology services and other technology sectors are regarded as specialities of the region. The number of industrial jobs has decreased in the region in recent years, and they currently account for some 10% of all jobs.

Oulu's IT sector has been suffering from significant restructurings and close-downs of the IT sector companies in the city. The unemployment rate currently stands at some 18%. However, the availability of skilled labour, as well as public subsidies are attracting companies in the region, and both start-ups as well as large companies' IT functions are being founded.

Value added by sector and region 2012, % Value added by employee (€) in parenthesis



Source: Statistics Finland

Oulu's real estate market is large enough to attract domestic pension funds, whose position in the market has remained quite strong. Listed property company Technopolis, originally founded in Oulu, is an important player in the office market. Recently, however, the property transaction market has been dominated by local players and rather small transactions.

"The Oulu centre retail markets are undergoing a facelift"

In the city centre, there are significant retail development projects triggered by the underground parking facility development. Local co-operative Arina is building a 20,000 sqm shopping centre and Ilmarinen is developing a retail, office and medical centre property in the vicinity. Also a smaller shopping centre Cube is currently under construction in the centre. The projects are scheduled for completion by mid-2016, and are expected to revive the centre's retail market as well as attract new retailers in the city. In Ritaharju area, north of the city, a 24,000 retail centre Ideapark was completed in October 2014. On the negative side, Stockmann has published its intention to close down its department store in Oulu in 2017.

The most important office market areas outside the central area are the Linnanmaa area north of the city centre, which accommodates several high-tech companies and Oulu University, and Limingantulli south of the city. The quality of the stock in these areas is dispersed, which affects rental levels. Office rents currently stand at €12-14 per sqm per month. Accounting firm Talenom is currently developing an 8,000 sqm head office in Peltola area, east of city centre.

The office vacancy rate has recently increased due to major close-downs primarily in the IT sector. Vacant premises can mainly be found in the outskirts of the city.

The rental residential market in Oulu is different from all other major cities in Finland. Due to the city's active planning policy, the supply is abundant, and the development of rental levels has thus been less positive than in other main cities.

Turku

Location: 160 km west of Helsinki,
in south-western corner of Finland
Population: Turku: 184,000
Turku region in total: 318,000

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

current competence areas include businesses around the sea cluster, and biotechnology. Metal industries in the region are supported by an extensive shipbuilding business, which has traditionally been of great importance from the region's economic development point of view but which is currently experiencing severe difficulties. The proportion of private services in Turku region is higher than in most other Finnish growth centres.

The major shipyard's position in Turku was re-established in 2014 when the German Meyer Werft bought the shipyard. This also brought some new orders and thousands of jobs, and created optimism in the market. However, due to major lay-offs, the unemployment rate currently stands at some 14%.

The Turku property investment market has, in recent years, been dominated by domestic and local players. Domestic institutions typically have investments in Turku. In recent years, however, local players have dominated the transactions market.

Turku Technology Properties Ltd has been the most active player in the market in recent years. In 2014, the company expanded its portfolio by two transactions. In summer, it acquired the Trivium office property in Kupittaa from Carlyle Group. At the year end, it completed a transaction of 9 properties, mainly in office use, with the City of Turku.

"Kupittaa is the most active office market area in Turku"

Kupittaa, located near the university area and next to the railway station, is the most active office market in the Turku area. This area is mainly targeted at high-tech, biotechnology and business-to-business service companies, and consists of office and high-quality manufacturing space. Residential development has also recently been active in the area. Turku Technology Properties is the biggest investor in the area, but domestic institutions and property companies also have significant holdings there. The company owns around 140,000 sqm of space in the Kupittaa area and in the city centre, and it has major plans for extending its portfolio within the Kupittaa area to create an innovation campus comprised of business, housing, educational and leisure properties.

The only completed office construction project in Turku in 2014 was that of Nereis Business Park west of the city centre. Some new office premises are currently being constructed in the Logomo Centre, which is an event arena, conference centre and an office centre targeted at creative companies – for instance, firms in design, advertising,

games industry, media, music and programme production businesses. New office premises are being planned in the Kupittaa area, for instance, but are not likely to be started before the demand picks up.

In the modern office space in the Kupittaa area, rents are clearly higher – at about €15-20 per sqm per month – than those in the city centre (€13-17 per sqm). The vacancy rate in Turku has increased in Turku recently, and currently stands just slightly below 10%, according to Catella Property.

The retail market in Turku is concentrated in the city centre and in some regional centres outside the city, such as the Länsikeskus and Skanssi areas in Turku and the surroundings of the Mylly shopping centre in Raisio. The amount of vacant retail space has increased in the city centre during the past year due to the close-downs of some major stores and restaurants in the very centre of the city.

Retail stock increased in 2014 through the completion of the 9,000 sqm retail park in Skanssi area. Nearby, a 4,500 sqm extension of the Skanssi shopping centre is under construction, to be completed in the second quarter of 2015. XXL sports store will become the tenant in the building. XXL is also one of the main tenants for the Mylly shopping centre's 24,000 sqm extension, which is due for completion by the year-end.

Jyväskylä

Location: 270 km north of Helsinki,
in the centre of Finland
Population: Jyväskylä: 136,000
Jyväskylä region in total: 179,000

Jyväskylä is a university town that emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover wood and construction materials and ICT as well as healthcare industries. Two-thirds of the region's jobs are currently in services. In recent years, unemployment has increased markedly, and is currently at some 16%. Jyväskylä's location is favourable because it is at the junction of several important national main roads.

The city centre is the most important office market area in the region, but no new stock has recently been developed. Office development has recently been concentrated in the Lutakko area. Other office areas with modern supply include the Mattilanniemi/Ylästönniemi area and Tourula, where old industrial properties have been redeveloped into office use. Space demand has decreased due to challenging economic conditions, and the vacancy rate has increased markedly, currently standing at some 9.5%, according to Catella. There are no office construction projects underway at the moment.

In the retail property market, Jyväskylä's city centre is an important regional centre. The major players include local retailers as well as some national investors. In 2014, no new retail space was completed. In late 2014, the local

co-operative started the construction of a new 22,000 sqm Prisma hypermarket in Seppälä area, north of city centre. Skanska is planning a major shopping centre in the same area.

In 2014, new warehouse premises were completed for Itella and Lidl. No new projects are currently under construction.

Investment market remains very quiet in the Jyväskylä region. No major transactions were reported in Jyväskylä in 2014. Investment markets are dominated by local players and are mainly small transactions.

The amount of vacant retail space remains rather low in Jyväskylä. The position of the city centre's pedestrian shopping district remains strong, and that is where the highest retail rents are still found. Modern offices, in particular, have continued attracting tenants. In prime properties, rental levels are slightly lower than in Turku or Tampere.

Kuopio

Location: 400 km north-east of Helsinki
Population: Kuopio: 108,000
Kuopio region in total: 132,000

Kuopio, a university city and the capital of the province of Savo, is situated in eastern Finland. Traditional industry areas are mostly related to wood. As in most major Finnish cities at the moment, the service sector is the biggest employer in the area. Of around 41,000 jobs in the region, some 8% are in industries. The proportion of occupations in the public sector is greater than in other major cities. In its strategy, the city emphasises food, health and bio, and environmental industry sectors.

The property investor base in the Kuopio property market is dominated by domestic players consisting of both national and local investors. In 2014, only one commercial property transaction was recorded in the area, when Keva bought the 9,000 sqm retail property IsoCee.

The Kuopio office stock is concentrated in the city centre as well as in Technopolis Kuopio's two locations close to the university and hospital areas. The amount of vacant space is relatively high, and the outlook for demand is not very positive.

The retail space market in 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. However, new supply has resulted as an increase in the amount of vacant retail space.

There are no other ongoing commercial property development projects in Kuopio. However, several rental residential projects are under construction, and, for instance, OP's property fund made a new investment in Kuopio's residential market in 2014.

Lahti

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

Lahti is a traditional industrial city that is home to metal, woodworking, furniture and plastics industries. Recently, more jobs have been transferred to professional services. The region emphasises competence in clean tech and design, where there is also a strong educational base. The region's favourable location has attracted logistics operators in the region. Services and trade occupations currently represent some 60% of the jobs in the region, while industry's share has decreased to 30%. However, Lahti is currently suffering from the highest unemployment rates among the big cities, standing at above 19% at the end of 2014.

The attractiveness of the city centre has increased as a result of redevelopment efforts that have transferred old industrial buildings into other uses. Property development in the city centre is currently concentrated on redevelopment. The city is increasing the centre's attractiveness by, for instance, constructing a new underground parking facility, as well as increasing pedestrian areas. The city's public transport terminal is also currently being developed.

In the old industrial Askonalue area, near the railway station, Renor Oy is a major owner and developer of old industrial properties, where it has redeveloped, for instance, office premises for business service companies. In the vicinity, a new 7,500 sqm BW Tower is currently under construction, and several new phases are being planned in the area. The office vacancy rate is currently at around 9%. Retail supply in the city centre concentrates around the Trio shopping centre and in the main street. In the Karisto area, there is a shopping centre with a leasable area of 34,000 sqm.

Key terminology

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

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NCC offers future environments for working, living and communication. The company is one of the leading housing and development companies in the Nordic region and has 18,000 employees.

In 2014, annual sales totalled €6.3 billion. NCC develops residential and commercial property projects and builds offices, industrial facilities, housing, roads, civil engineering structures and other types of infrastructure. The company's business areas in Finland are NCC Construction, NCC Housing, NCC Property Development and NCC Roads. In Finland, NCC's annual turnover stands at €1.1 billion, and it employs 2,700 persons.

NCC Property Development acquires, develops, sells and leases office, retail and logistics premises and provides services for the entire lifecycle of the properties. Recently, it has been active in developing new business concepts for multi-use purpose construction, combining retail, office and housing. NCC's main products are business parks, company headquarters, shopping centres and other retail projects. NCC Property Development has been elected as the best property developer for the seventh consecutive year by the international financial magazine Euromoney. All projects are carried out according to the international BREEAM Environmental Assessment Method. NCC Property Development has gained first BREEAM Very Good certifications in Scandinavia for office buildings and it is also EU's Green Building partner. www.ncc.fi



Newsec offers a wide range of integrated professional advisory services comprising investment transaction advisory and leasing brokerage, valuation and analysis, real estate consultancy and corporate finance services as well as asset and property management, corporate real estate management and corporate solutions.

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Newsec – The Full Service Property House in Northern Europe – is by far the largest specialized commercial property firm in the region. Newsec offers a comprehensive range of services within the business areas Capital Markets, Leasing, Asset & Property Management, Valuation & Advisory and Corporate Solutions to property owners, investors and occupiers. Newsec was founded in 1994 and is owned by its partners. Today, the Group employs over 600 professionals in over 20 offices.

Every year Newsec carries out hundreds of successful assignments and manages nearly 2,000 properties with over 12 million sqm. Through this great volume, and with the breadth and depth of its various operations, Newsec has superior knowledge of the real estate market. www.newsec.com, www.newsec.fi



The Ovenia Group is Finland's leading provider of asset, property and facility management services. Ovenia provides a wide ranging customer-driven real estate service portfolio for maintaining and developing the value of real estate assets.

Ovenia has four key strategic business units: commercial real estate management, business premises management, residential property management and housing services. Ovenia's main services are leasing (commercial and office premises), property development, shopping centre management, construction and maintenance management services (technical services), housing, real estate financial administration and business premises facility management (incl. business parks).

With over 30 years of experience in business and commercial premises and over 70 years of experience in residential real estate management, Ovenia is the largest and oldest company in its field in Finland. In recognition of its work, Ovenia was the first company in Finland to receive ISO 9001 certification for property management. The company's comprehensive service offering covers all sub-areas of real estate asset management. The Ovenia Group administers a property portfolio amounting to over 10 million square metres across Finland and the Group's turnover for 2014 was over €48 million. The company employs more than 550 property professionals in 23 locations. www.ovenia.fi



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

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



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SATO Group's net sales in 2014 were €312.3 million, operating profit €191.3 million and profit before taxes €152.2 million. Our major owners are pension insurance and insurance companies. SATO's investment properties have a value of roughly €2.5 billion. www.sato.fi



SEB is a leading Nordic financial services group. As a relationship bank, SEB in Sweden and the Baltic countries offers financial advice and a wide range of other services. In Denmark, Finland, Norway and Germany the bank's operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in its presence in some 20 countries worldwide. SEB has 4,000,000 private customers, 400,000 SME customers and 2,900 corporations and institutions as customers. The Group has about 16,000 employees.

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

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

Sirius currently provides advisory services for three funds regarding the management of properties worth approximately €300 million. www.sirius.fi



Skanska is one of the world's leading project development and construction groups with expertise in construction, development of commercial and residential projects and public-private partnerships. Based on its global green experience, Skanska aims to be the clients' first choice for Green solutions.

The Group currently has 57,900 employees in selected home markets in Europe and in the US. Skanska is headquartered in Stockholm, Sweden and listed on the Stockholm Stock Exchange. Skanska's sales in 2014 totaled nearly EUR 16 billion.

Skanska's operations in Finland cover construction services, residential and commercial project development as well as public-private partnerships. Construction services include building construction, building services, and civil and environmental construction. The combined sales for Skanska's operations in Finland in 2014 were approximately 835 million euros and the company employed about 2,200 people.

Skanska CDF Oy is part of Skanska Commercial Development Nordic, which initiates and develops office properties. The company's operations are concentrated in the three metropolitan regions in Sweden, the Copenhagen region in Denmark, the Oslo region in Norway, as well as Helsinki in Finland. www.skanska.fi, www.facebook.com/skanskafinland



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