



The Finnish Property Market | 2016

THE FINNISH
PROPERTY
MARKET
2016

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Preface

The Finnish Property Market 2016 discusses the structure, players, market practices and conditions in the Finnish property investment market. The report aims to satisfy the information needs of international investors and other players interested in the Finnish market.

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

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

This publication is sponsored by 12 companies and organisations representing the Finnish property investment, development, management, finance and advisory sectors. KTI wishes to thank the sponsors: The City of Helsinki, KIINKO Real Estate Education, Kuhanen, Asikainen and Kanerva Attorneys, LocalTapiola, Newsec, Ovenia, RAKLI, SATO, SEB Group, Sirius Capital Partners, Skanska and SRV.

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

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

Hanna Kaleva
KTI Finland

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

1 The Finnish economy

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	5.49 million Density: 18 inhabitants per square kilometre Helsinki 2,904 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 89.0 % Swedish, spoken by 5.3 %
Religions	Lutheran 73.8 % Orthodox 1.1 %
Capital city	Helsinki, 630,000 inhabitants Helsinki region, 1.4 million inhabitants comprising Helsinki and 13 neighbouring municipalities – Espoo and Vantaa being the biggest
Other important cities	Espoo, 270,000 Tampere, 225,000 Vantaa, 215,000 Oulu, 199,000 Turku, 186,000 Jyväskylä, 137,000 Kuopio, 112,000 Lahti, 104,000
ECONOMY	
GDP per capita	€ 37,351 (2014)
Most important exporting industries	Forest and paper industry products Chemical industry products Metal and engineering products Machinery and equipment Electronics and electrotechnical goods
Currency	Euro (since 2002)
POLITICS	
History and governance	Independent democracy since 1917
	Member of the European Union since 1995
Head of State	President of Republic, Sauli Niinistö (since 2012)
Parliament	One chamber, 200 members, elected for 4 years. Current parliament elected in 2015. Biggest parties: The Center Party (49 seats), The Finns Party (38), The National Coalition Party (37) and The Social Democratic Party (34).

1.1 The structure of the economy

Finland is an open, well-functioning and stable economy, which has transformed itself into a modern, industrialised welfare society in a matter of decades. Industrialisation started in Finland later than in most other OECD countries, but has been very rapid.

Strong growth, innovation and structural reforms transformed Finland into one of the world's most competitive economies during the late 1990's and early 2000's. Electrotechnical industries producing high technology products grew rapidly and expanded Finland's economic base in the decade preceding the global economic and financial crisis.

Since the financial crisis started in 2009, the competitiveness of the economy has deteriorated and output has fallen due to the global downturn, the decline of the electronics and paper industries and the Russian recession. Despite the recent challenges, Finland still enjoys a high level of income and well-being. In 2014, the Finnish gross domestic production per capita amounted to USD 40,661. According to International Monetary Fund, this places Finland as the 25th richest country in the world.

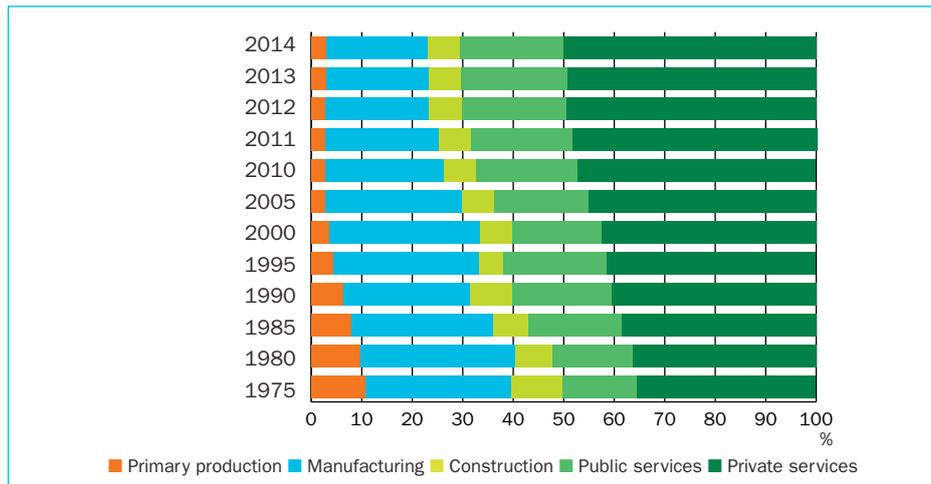
Due to its importance for Finnish exports, industrial production played an important role during the strong growth years of the Finnish economy. In 2000, industrial production accounted for 30% of the total production. Currently, the share of industrial production of the Finnish GDP has fallen to some 20%. In recent years, the Finnish manufacturing sectors have suffered from the simultaneous decline of forestry and electrotechnical industries.

Services are currently the biggest sector in the Finnish economy, representing some two thirds of the annual GDP. Private services make up three quarters of all services. The most important private service sectors include trade, transportation, information and communication, as well as real estate services.

“Services comprise more than two thirds of the Finnish GDP”

The importance of foreign trade for the Finnish economy is crucial, and changes in exports have a profound impact on economic growth. Exports played an important role in the strong growth of the Finnish economy in the 1990's and early years of 2000's. At its highest, the share of exports of the GDP was some 45% in 2008. Since the global financial crisis, however, the international competitiveness of Finnish industrial production has deteriorated, and the share of exports has declined. In 2014, exports accounted for some 38% of the Finnish GDP. The volume of exports decreased further by some 4% in 2015, mainly due to the decrease in oil prices, as well as the declining exports to Russia.

Finnish economic structure, %



Source: Statistics Finland

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

During the past years, Finnish exports have faced challenges caused by both the deterioration of the international competitiveness and the structural change in exporting industries. Also, the big share of investment goods in Finnish exports has caused difficulties, as demand for investment goods was depressed by weak economic conditions in many important target markets. In 2014, investment goods represented some 28% of the total exports.

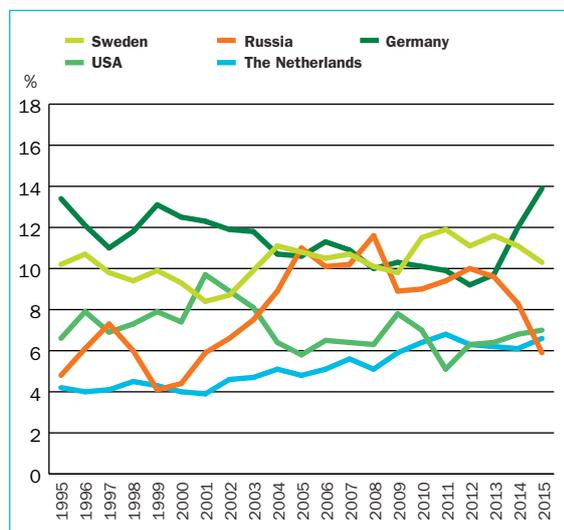
Forest industry products were the biggest exported product category in 2015, and their share of total exports increased to 21.5% (15.6% in 2014). The proportion of chemical products decreased from 23.1% in 2014 to 18.8% in 2015. The shares

of metals and metal products as well as machinery and equipment remained stable at 14.7% and 13.5%, respectively.

The share of services of all exports has increased steadily in recent years. In 2014, services represented some 25% of all exports. The biggest exporting service sector is information technology industry, which accounted for 43% of all service exports in 2014. Other exported services include, for example, technology services, licencing of research and development, as well as business-to-business services.

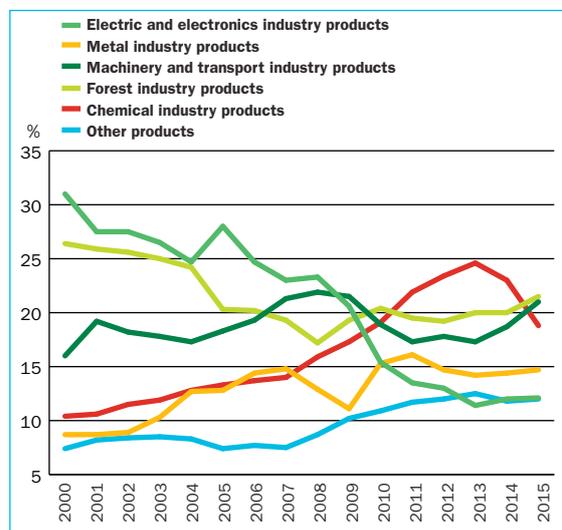
The majority of Finnish exports go to other EU countries, which accounted for 59% of total exports in 2015. The two biggest target countries are Germany and Sweden with shares of some 14 and 10%, respectively. The share of Russia has declined steadily in recent years, and was 5.9% in 2015, having stood at some 10% only two years earlier. The importance of the USA as a target country for the Finnish exports has increased recently, and its share is currently some 7%.

Finnish foreign trade by target area



Source: Finnish Customs

Finnish exports by industry sector



Source: Finnish Customs

1.2 Outlook for the Finnish economy

The growth of the Finnish economy has been weak in recent years. In 2015, the Finnish GDP growth was estimated to land slightly in the positive territory, at some 0.4%.

Finnish GDP growth has remained sluggish ever since the global financial crisis: in 2009, the GDP collapsed by 8.3%, years 2010 and 2011 showed slight growth, but between 2012 and 2014, the total production decreased every year. Due to this, the absolute volume of production has still not reached the peak level of 2008, and is not expected to do so in the next couple of years.

"Finnish GDP growth slightly positive in 2015"

In recent years, the Finnish economy has been pressured by both domestic and global drivers. Since the global financial crisis, the competitiveness of Finnish exporting industries has deteriorated, mainly due to the increase in labour costs and weak development of productivity compared with most peer countries. During the same period, the global economic turmoil has decreased the demand for Finnish exports.

In 2015, the volume of Finnish exports remained unchanged compared to the previous year. Of the other components of demand, private consumption increased only slightly, by less than 1%. Tightening taxation, increasing unemployment and zero wage increases limited the increase in consumption. Private investments continued to decrease compared to the previous year.

"Private consumption growth limited by increasing unemployment and tightening taxation"

For 2016 and 2017, slightly positive GDP growth is forecasted, with annual growth figures of some 1-1.5%. The moderate growth will be mainly based on domestic demand. The economists expect private investments to increase by 2-3%. Forest industry, in particular, is currently increasing its investments in some major production facilities.

Construction volumes are also expected to pick up for both residential and non-residential buildings. In the recent forecast, the Ministry of Finance's construction advisory group forecasted construction volumes to grow by 3-4% in 2016.

"Positive development in construction and industrial investments"

Private consumption is expected to continue increasing moderately, by some 1-1.5% per annum.

Finnish exports are not expected to show any significant growth in 2016, due to, for instance, the continuing weakness of the Russian economy. For 2017, increasing growth is forecasted, due to an improving economic outlook in many important target countries. However, from the GDP point of view, this growth is expected to be mitigated by the increase in imports.

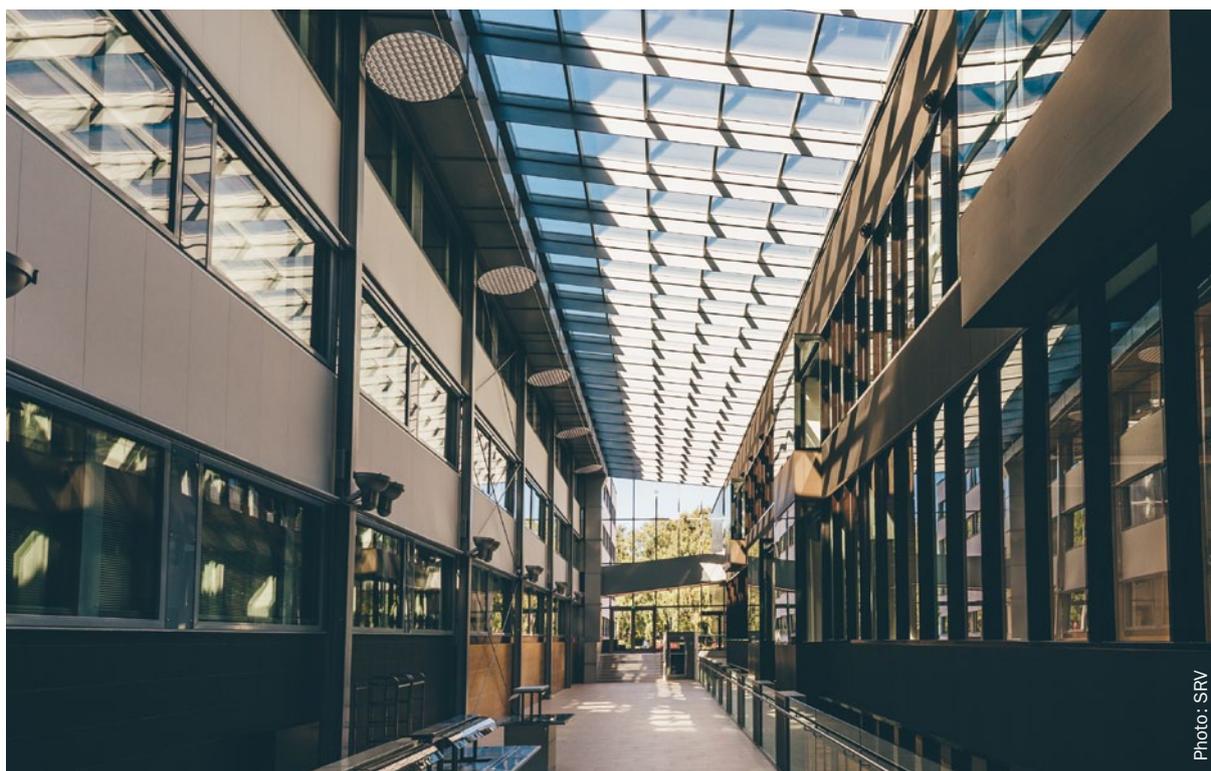
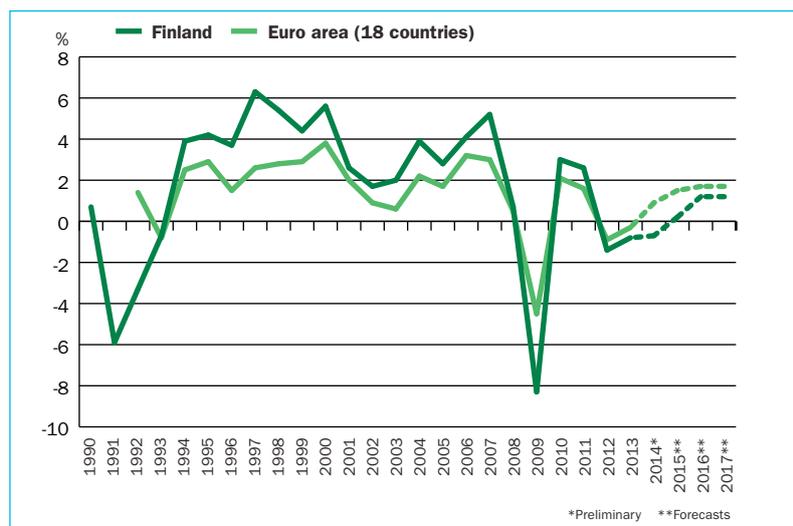


Photo: SRV

GDP growth in Finland and in the Euro area



Source: Eurostat, OECD, IMF, Ministry of Finance

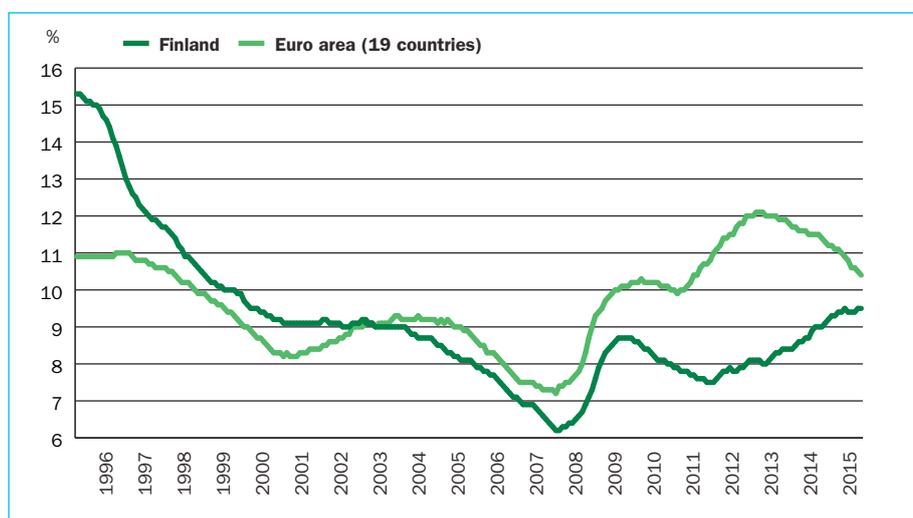
Economists consider 2016 as an essential turning point for the economy. There are good prerequisites for the Finnish economy to be turned positive, but determined actions are required to enhance competitiveness and productivity. The prevailing risks in the global economy might also have a significant negative impact on the Finnish economy.

“Investments expected to increase by 3-4% in 2016 and 2017”

The current challenging economic conditions are reflected in the labour markets, where unemployment has increased to 9.6% in 2015. The rise in long-term structural unemployment is one of the main concerns in the economic outlook. The economic forecasting institutes show somewhat differing predictions for the development in unemployment: in some forecasts unemployment is expected to continue increasing, while others show slight positive development. According to the Ministry of Finance’s forecast, unemployment will decrease close to 9% by 2017.

Inflationary pressures remain low for many reasons. Weak economic outlook, modest wage increases and abundant unused capacity in the economy prevent prices from increasing. In 2015, inflation was reported to end up in the negative territory, at -0.2%. The biggest single reason for negative development of consumer prices is the low level of oil price. Other contributors for sluggish price development include low interest rates of housing mortgages as well as decreased prices for food. Food prices have decreased recently due to sluggish demand, but, even more importantly, due to increased competition between retailers, many of which reduced prices permanently during 2015.

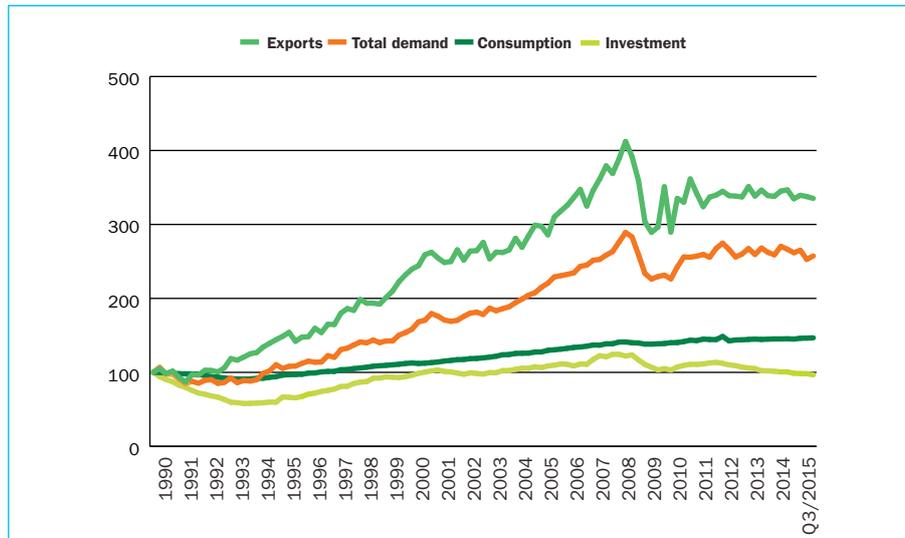
Unemployment rate, Finland – Euro area



Source: Eurostat, Bank of Finland and Statistics Finland

Main components of demand

Volume index 1990=100, seasonally adjusted



Source: Statistics Finland

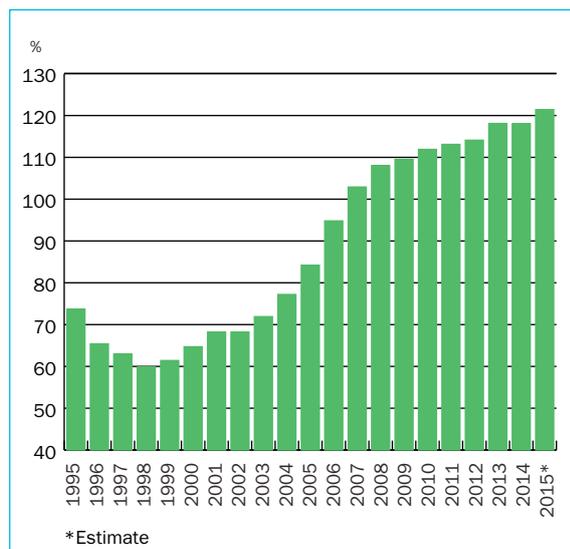
Key figures – Finnish economy

	2008	2009	2010	2011	2012	2013	2014	2015	2016**	2017**
GDP (change in vol)	0.7	-8.3	3.0	2.6	-1.4	-0.8	-0.7*	0.4*	1.2	1.2
Change in exports	6.6	-20.1	6.2	2.0	1.2	1.1	-0.9*	0.4*	1.8	2.9
Inflation	4.1	0.0	1.2	3.4	2.8	1.5	1.0	-0.2	0.9	1.4
Unemployment rate	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.4	9.4	9.0
Private consumption growth	2.1	-2.7	3.1	2.9	0.3	-0.5	-0.6*	1.3*	0.8	0.8

Source: Statistics Finland, Ministry of Finance

*Estimate **Forecast

Indebtedness ratio of Finnish households



Source: Statistics Finland

The indebtedness of Finnish households has increased markedly in recent years, but it still stands at a moderate level compared with many other countries. And, at the same time, the financial assets of households have grown, and the net wealth has thus increased. At the end of the third quarter of 2015, the total amount of loans of the Finnish households stood at €120 billion, which represents 123.5% of the disposable income. The vast majority, some 76% of all debt is housing loans. The financial assets of households amounted to some €260 billion.

1.3 Finnish public finances

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



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

Finland's general government deficit exceeded the 3% reference value for the first time in 2014, and remained above the threshold also in 2015. According to the Ministry of Finance's forecast published in late 2015, the savings measures announced in the current government's programme will be enough to contract the deficit in 2016. Therefore, Finland is likely to meet the EU deficit criterion. The European Commission also came to the same conclusion in June 2015.

"General government deficit expected to fall below the 3% threshold in 2016"

The deficit has led to an increase in public debt. Despite the rapid increase in the debt level in recent years, Finnish public finances are still relatively strong in international comparison. The amount of government debt only exceeded the threshold of 60% of the GDP in 2015, ending at some 62.6%. The amount of general government debt thus remains clearly lower than in most other EU countries. The amount of public debt is expected to continue increasing in coming years, and the ratio to GDP forecasted to grow to some 67% by the end of the decade.

Fiscal actions are being taken in order to balance the public economy. In 2015, fiscal measures increased the tax burden by some €3 billion, which was expected to increase the tax rate to some 44.5% of the GDP. In the coming years, the total tax rate is expected to decrease slightly – not because of any easing of fiscal measures, but because of the expected growth in output exceeding the increase in taxes.

General government finances

Key figures measured in terms of national accounting in ratio to GDP, %

	2012	2013*	2014*	2015**	2016**	2017**
Taxes and social security contribution (% of GDP)	42.7	43.8	43.9	44.6	44.5	44.2
General government expenditure (% of GDP)	56.1	57.6	58.2	59.1	58.7	58.3
Net lending (% of GDP)	-2.1	-2.5	-3.3	-3.3	-2.9	-2.6
-central government	-3.6	-3.6	-3.9	-3.1	-2.9	-2.7
-local government	-1.1	-0.7	-0.8	-0.9	-0.9	-0.8
-earnings-related pension funds	-2.4	1.8	1.7	1.2	1.1	1.1
-other social security funds	0.2	0.0	-0.3	-0.5	-0.2	-0.1
General government debt (% of GDP)	52.9	55.6	59.3	62.8	64.9	66.6
Central government debt (% of GDP)	42.0	44.3	46.4	48.5	49.9	51.3

Source: Ministry of Finance, Budget review 2016, January

*Estimate **Forecast

"The new government introduced several fiscal actions in 2015"

The new parliament was elected in spring 2015, and the government was formed by the three biggest parliamentary parties. The current government aims at balancing the public economy through both determined fiscal measures and significant structural changes in public services.

The government also aims to enhance the international competitiveness of Finnish industries through measures that would decrease labour costs, by, for instance, prolonging the annual working hours. These measures have, however, proven to be extremely difficult to implement because of the strong position of labour unions in Finland. Therefore, the government has plans to go forward by introducing actions in its own power, like cuts in annual leave benefits and unemployment allowances.

"The government aims at decreasing labour costs"

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 as a share of

GDP is the highest in the OECD, and accounts for some 58% of total production.

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

There are currently 313 municipalities in Finland. Municipalities differ from each other significantly with regard to their size, economic structure and financial position. Significant differences are seen in the development of the size of the municipalities: the biggest economic challenges are faced by the smaller municipalities with negative migration balance and ageing population, which increases the cost burden in healthcare services. Therefore, structural reforms in the municipalities' responsibilities are essential in ensuring the sustainability of Finnish public finances.

One of the most significant reforms in the current government's agenda is the restructuring of the management and provision of social and healthcare services. The reform, which has caused serious debates among the policymakers for several years already, is now set to advance to the Parliament during spring 2016. In the current plan, the responsibility of healthcare services will be moved from the municipalities to 18 self-governing regions in the beginning of 2019. The details of the governance and financing of these regions is yet to be defined. The main objectives of the reform include improved control over the increasing costs as well as increased freedom of choice for citizens between public and private sector service providers. Productivity of the services is expected to increase through centralised management, increased competition, as well as digitalisation and improved information systems for healthcare service providers. The planned reform would also impact the ownership and financing of public healthcare properties, the value of which is estimated to be some €6.5 billion.

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

The 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.

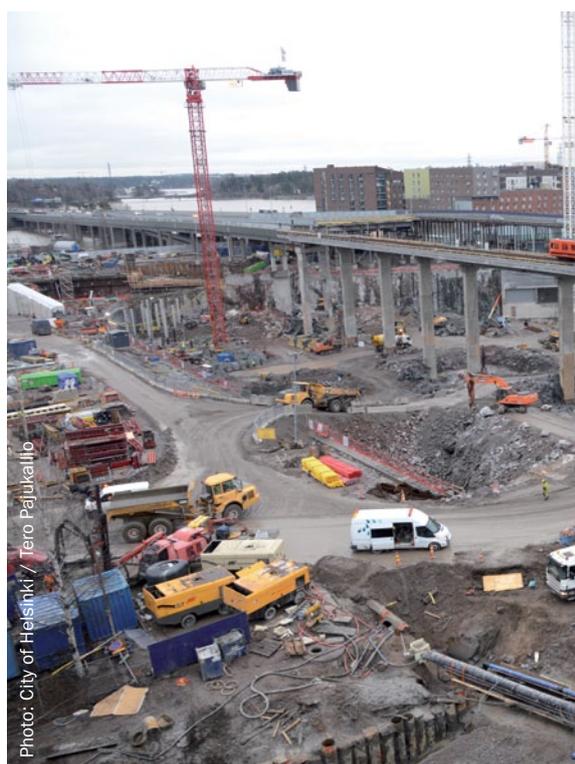


Photo: City of Helsinki / Tero Pajukallio



1.4 Finland's international competitiveness

Despite the past few years' challenging conditions, Finland has retained its good position in many international rankings looking at various indicators regarding the competitiveness of the economy as well as overall welfare of citizens. In its recent report, however, OECD recommended several actions in order to revive productivity and competitiveness. These recommendations include, for instance, boosting employment by reducing unemployment benefits, cutting parental leaves and increasing the flexibility of labour markets.

"OECD recommends several actions to boost productivity and increase employment"

Despite the recent deterioration, the long-term credit ratings for Finland remain strong. Standard & Poor's credit rating remains at AA+. Moody's and Fitch have, so far, both kept the Finnish rating in the best AAA category. However, all agencies revised their outlook on Finland's rating to negative in 2015. The main reasons for this revision included low economic growth as well as the fiscal deficit and increasing debt burden. Due to the strong ratings and low interest rates, the Finnish government continues to be able to acquire funding at a very low cost.

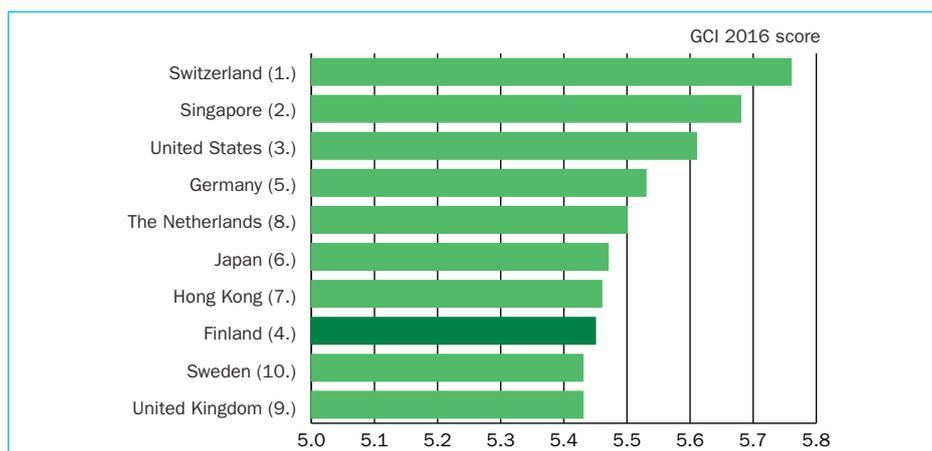
"Finland's long-term credit ratings remain strong"

In the latest World Economic Forum's Global Competitiveness Report, published in September 2015, Finland was ranked eighth among the 140 evaluated countries, after having been in fourth place in 2014. In this ranking, Finland's position still remains slightly higher than that of the other Nordic countries.

In the ranking, Finland is appreciated highly for the functioning of its institutional framework as well as health and primary education. It also holds second position in the pillars of higher education and training, as well as innovation. Finnish weaknesses include the small market size, weak macroeconomic conditions, and the inflexibility of its labour markets, which are also the main reasons for the deterioration of the ranking in the latest report.

"Finland was ranked 8th in the recent World Economic Forum's Global Competitiveness Index"

The most competitive national economies in 2016 (ranking in 2015)



Source: World Economic Forum

In IMD's World Competitiveness Ranking of 2015, Finland achieved 20th place. This ranking emphasises business efficiency, which is evaluated through, for instance, productivity of companies and labour market flexibility.

Finland typically ranks well in reports comparing the quality of living in various countries. In OECD's Better Life Index, Finland performs well in most assessed areas. In this comparison, the strengths of Finland include, for example, the quality and accessibility of the education system, environmental quality, personal security and work-life balance.

Finland is widely known as one of the least corrupt countries in the world. In Transparency International's Global Corruption Perceptions Index for 2015 Finland improved its ranking by one place, ranked second after Denmark. The report identified strong access to information systems, rules governing the behaviour of those in public positions and transparency of institutions as the factors differentiating the winners from other countries.

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.

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

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.

PricewaterhouseCooper's and Urban Land Institute's report Emerging Trends in Real Estate Europe 2016 showed renewed investor interest in Nordic countries, although both Stockholm and Copenhagen were ranked in higher positions than Helsinki. In this ranking Helsinki held the 16th position in investment and development prospects, showing slight improvement compared to the previous year. The ranking of Helsinki suffers from Finland's weak economy and close trading links with badly performing Russia. However, increasing urbanisation enhances the prospects for Helsinki, especially in the residential property sector.

1.5 Main city regions in Finland

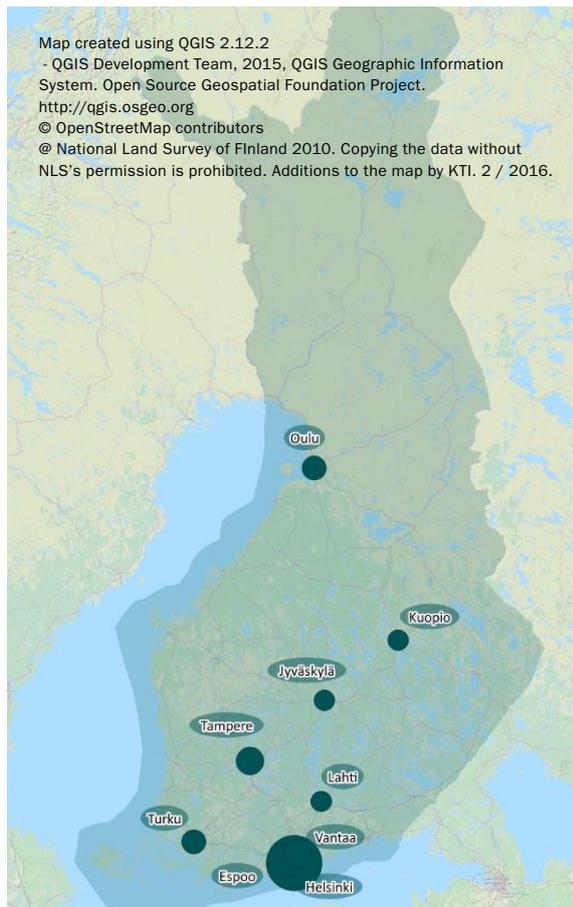
Urbanisation started relatively late in Finland, but has proceeded fast. In 1990, some 60% of the Finnish population lived in urban areas, and by 2014, the proportion has increased to almost 70%. During the same period, the population living in urban areas increased by 645,000 inhabitants. 60% of the Finnish population currently lives in 10 biggest city regions.

"70% of the Finnish population lives in urban areas"

Economic activity is concentrating in main cities. The 14 biggest city areas represent 75% of the Finnish GDP and 70% of all jobs.

The concentration of the population to the main cities is expected to continue also in the future. By 2030, the population of the 14 biggest city regions – with 90,000 or more inhabitants – is estimated to grow by 400,000-500,000 people. Increased urbanisation has been and will be a result of both internal migration and immigration. Within Finland, moves are weighted towards the young or working-age population, which increases the challenges for, for instance, maintenance of public service provision in regions suffering from negative migration.

Main city regions in Finland



Growth has and is expected to be fastest in the Helsinki region, which currently accommodates some 1.4 inhabitants. By 2050, the population is forecasted to increase to 1.7-1.8 million. The Helsinki region currently represents some 26% of the population, 36% of the GDP and 31% of all jobs even as the land area only represents only 1.2% of the whole country.

Within the city regions, urbanisation has in recent years materialised as an increased attractiveness of the central city areas at the cost of more distant and sparsely populated areas.

Residential demand in main city regions

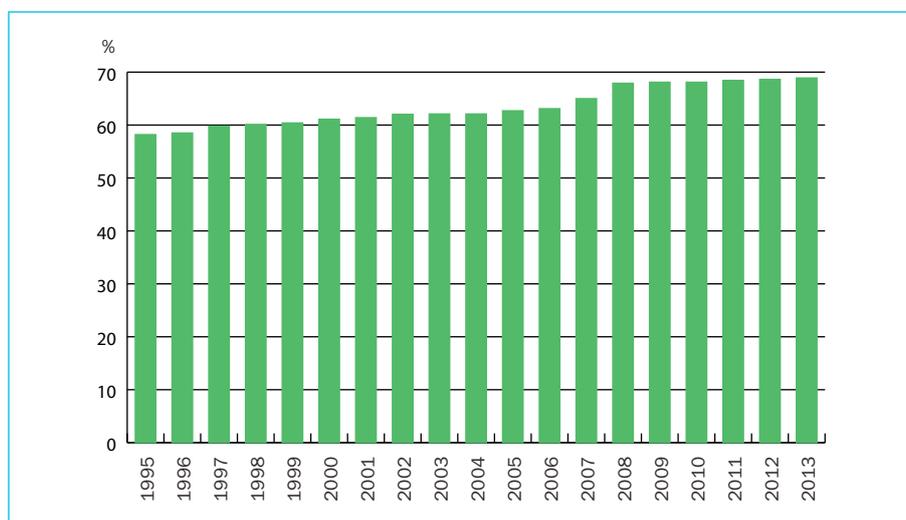
Increasing urbanisation, demographic development and changes in housing preferences have a profound impact on housing markets in Finland. The demand for small, well-located apartments has increased both in owner-occupied and rental housing markets, whereas the need for single-family houses and large apartments has decreased.

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

"Urbanisation increases housing demand in main city regions"

In the latter scenario – which, according to VTT is more likely – the need for new dwellings would concentrate in 14 main city regions, where almost 29,000 new dwellings would be needed annually. In comparison with construction volumes between 1991 and 2015, this would mean an increase of some 4,500 dwellings per annum on average. These forecasts are based on the current level of immigration. If immigration is to increase by 30%, a further 2,500 dwellings would be needed annually.

Share of population living in urban areas



Source: Statistics Finland

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

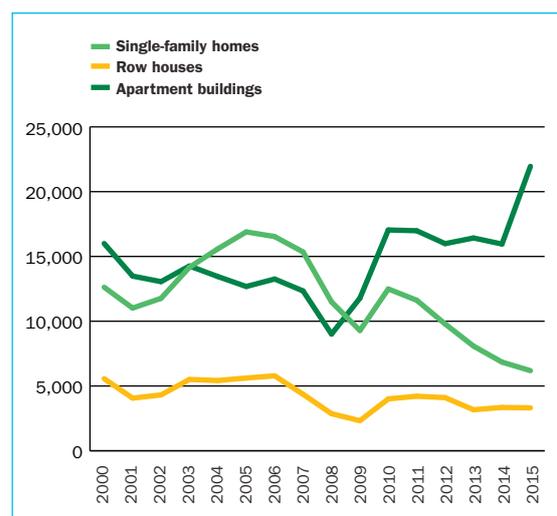
	Helsinki region	The regions of Tampere, Turku and Oulu	14 biggest city regions
Population (2014)	27.1	17.4	68.0
Jobs (2013)	31.8	17.4	71.7
Private-sector jobs (2013)	34.9	17.7	74.1
GDP (2012)	35.7	17.4	74.0
Research and development expenditure (2013)	43.9	31.3	88.3
Completed dwellings (2010-2014)	33.5	22.4	79.5

Source: Statistics Finland

In the urbanisation scenario, the increase in residential demand would be heavily weighted towards the largest cities. Helsinki region alone would represent almost half of the increase. The increasing need seems to have been apprehended by developers: in 2015, residential construction starts increased significantly and amounted to some 30,000 dwellings. New development was concentrated on apartment houses, which comprised some 68% of all starts, and in Helsinki metropolitan area, which accounted for 40% of all starts.

"The growth of Helsinki region challenges residential development"

New construction starts 2000–2015



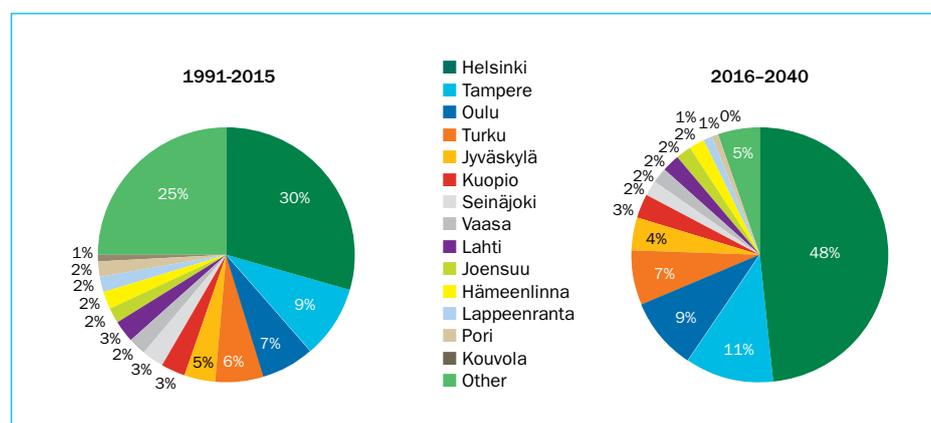
Source: Statistics Finland

Need for new dwellings by 2040

Housing units		Mainland Finland		14 biggest city regions		
		By 2040	In one year	By 2040	In one year	Share
1991-2015	Built Dwellings	815,000	32,600	612,000	24,480	75%
2016-2040	Conservative scenario	618,200	24,730	527,800	21,110	85%
2016-2040	Urbanisation scenario	760,500	30,420	719,700	28,790	95%

Source: RT

Geographical distribution of housing production in main city regions



Source: RT

2 Institutional aspects of the Finnish property market

2.1 Two forms of property ownership

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

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

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

The Housing Companies Act and Decree 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 loans.

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

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

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



Photo: SATO



Impact on market practices

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

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

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

Legislation concerning renting and transactions

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

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

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.

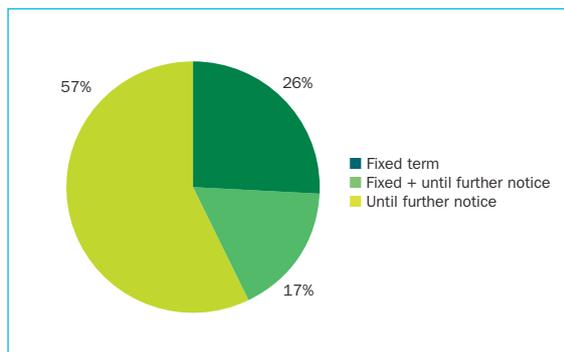
Rental practices

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"

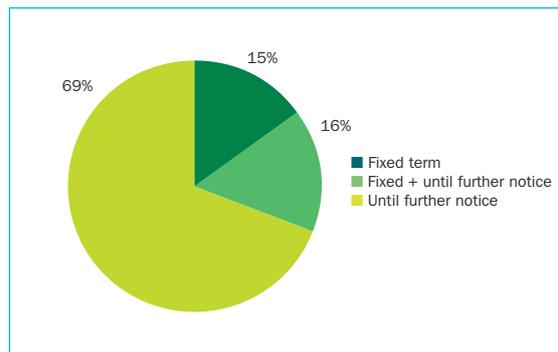
A common term in Finnish lease agreements is "until further notice": an indefinite contract is valid until either the tenant or the landlord wishes to terminate it after an agreed notice period, which is typically three, six or twelve months. These indefinite lease terms are especially popular in multi-tenant office buildings and smaller spaces. The landlord must, however, have an acceptable cause to terminate the contract. Rent adjustment, tenant mix changes,

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



Source: KTI Rental database

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



Source: KTI Rental database

or rearrangement of the property portfolio are among the conditions used to justify lease termination. In KTI's rental database, measured by the number of agreements, some 64% of all office agreements in Helsinki metropolitan area are indefinite. Measured by total space area, their share is 52%.

Indefinite leases often last for long periods, as both parties typically tolerate temporary fluctuations in the market. 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.

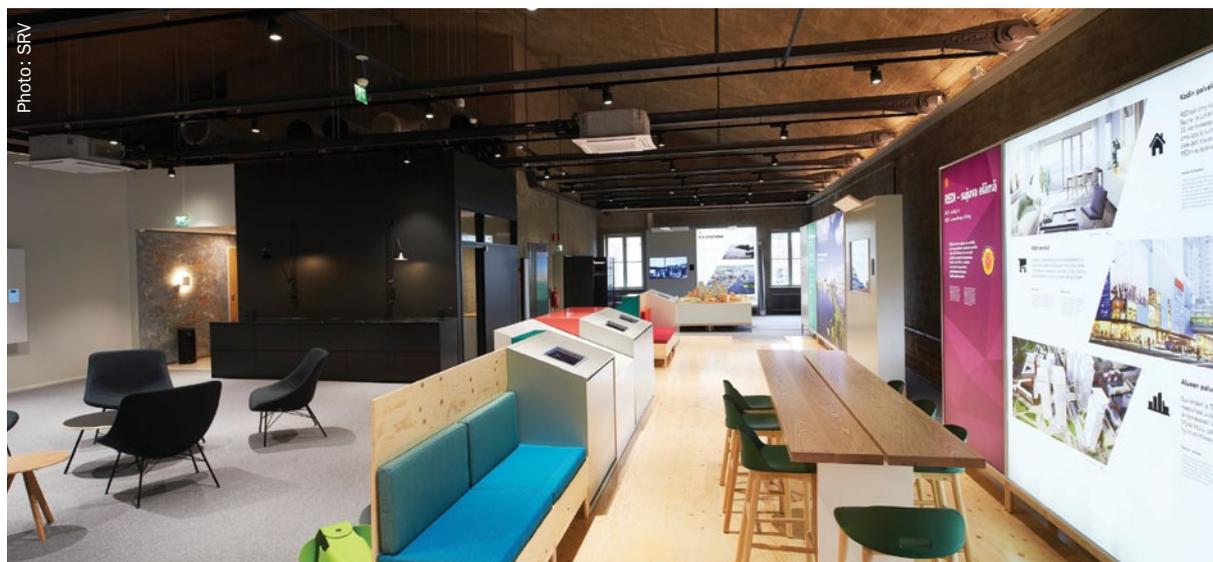
For larger units, longer fixed-term agreements are commonly applied. For a purpose-built, single-tenant office building, a net lease of ten years or more is common. Agreements

in large single-tenant buildings in, for example, sale-and-leaseback arrangements, often have lease terms of up to 20 years.

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



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

Typical leasing practices in Finland

Sector	Shopping centres	High street shops	Supermarkets	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)

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.

"Tenant's position is strong in the current 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 overall inflation, some landlords tend to index their rents to operating cost indexes.

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

In market downturns and over-supply situations, various means to attract and retain 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.

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, who, since the beginning of 2016, also have the powers to confirm the plan. Regional plans and steering of land use is one of the tasks currently planned to be moved to the new regional authorities.

"Steering of land use is one task discussed in new regional reform"

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 – and increasingly common – to agree on joint master plans between municipalities forming a homogenous urban area.

"Municipalities exercise extensive powers in local plans and land use"

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.

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

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. The 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.

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

The current government is aiming at simplifying the regulation concerning land use and planning and thereby speeding up the planning and construction permit processes. The first step was taken in the beginning of 2016, when the authority for confirming regional plans was moved from the Ministry of the Environment to Regional Councils. The current minister has also nominated a working group to investigate the needed reforms in the Land Use and Building Act in order to shorten the decision making processes in planning and construction. The reforms should comprise, for instance, easing of the regulation concerning large retail units, limitations for the rights of appeals in permit processes, as well as facilitating the processes concerning supplementary construction and changes of use of buildings.

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. With regard to the reform in public service provision, a new level of taxation is being discussed, in order to finance the services provided by new regional authorities.

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 2014, income taxes accounted for some 29% of the total tax revenue. Revenue from value added taxes accounted for 42% of all taxes.

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 34% in 2016.

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

The highest state tax rate is 31.75% of earned income. Municipal tax rates for 2016 vary between 16.5% and 22.5%.



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 48-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.

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 43.9%. In the EU 15 countries, the average stands at 39.4%, and in the OECD, at 34.4%.

The recent years' economic downturn and the resulting public deficit have forced the Finnish government to tighten 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%.

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

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

Capital gains taxes

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

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

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

Transfer taxes

Tax on the transfer of real property is 4% of the transfer price. Transfer tax for transactions made by buying shares in a housing or real estate company is 2% of the transfer price.³ The tax base covers the total transaction price, comprising both the actual sales price and potential debt of the mutual real estate company.



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.

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

Corporate taxation

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

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

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

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

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

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

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



Taxation of partnership structures

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

"Limited partnerships are pass-through entities in taxation"

The interpretation of a partnership's tax status might depend on the organisation and the type of activities of the fund. Taxation of a partnership's income generated by property business can 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, and, for instance, capital income is taxed at the investor level.

Value added tax

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

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

Under Finnish VAT legislation, a taxable entity is also entitled to deduct VAT included in the costs for the construction of a new building as well as the restoration of an existing building, provided that the relevant property is intended for the use of a VAT taxable business activity. This deduction will then be revised if the use of the property 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.

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 non-deductible final tax.

Central tax rates in Finland

	TAX RATE	NOTE
Corporate tax rate	20%	Tax rate decreased in 2014.
Capital gains tax rate	30% (34% on income exceeding €30,000)	Levied on profits from selling real property, buildings, securities such as housing company shares, shares in listed companies, etc.
VAT	24%	Special rates for food, restaurant and catering services (14%); medicine, books, transportation, cultural events, etc. (10%); and newspapers and periodicals (0%).
Tax on real property	0.8–1.55% 0.37–0.8% (residential property)	Depends on municipality and type of property. Taxable value defined separately for the building and the land.
Transfer tax, real property	4%	The majority of transactions are carried out by selling the shares of a (mutual) limited real-estate company.
Transfer tax, shares of mutual real estate companies	2%	Tax is calculated on the total (gross) transaction price of the shares.
Transfer tax, securities	1.6%	Transfer of securities is tax-exempt if the transfer takes place through the stock exchange or if both the seller and the purchaser are non-residents. Shares in a housing company are always subject to transfer tax.

Source: Finnish Tax Administration, www.vero.fi

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.

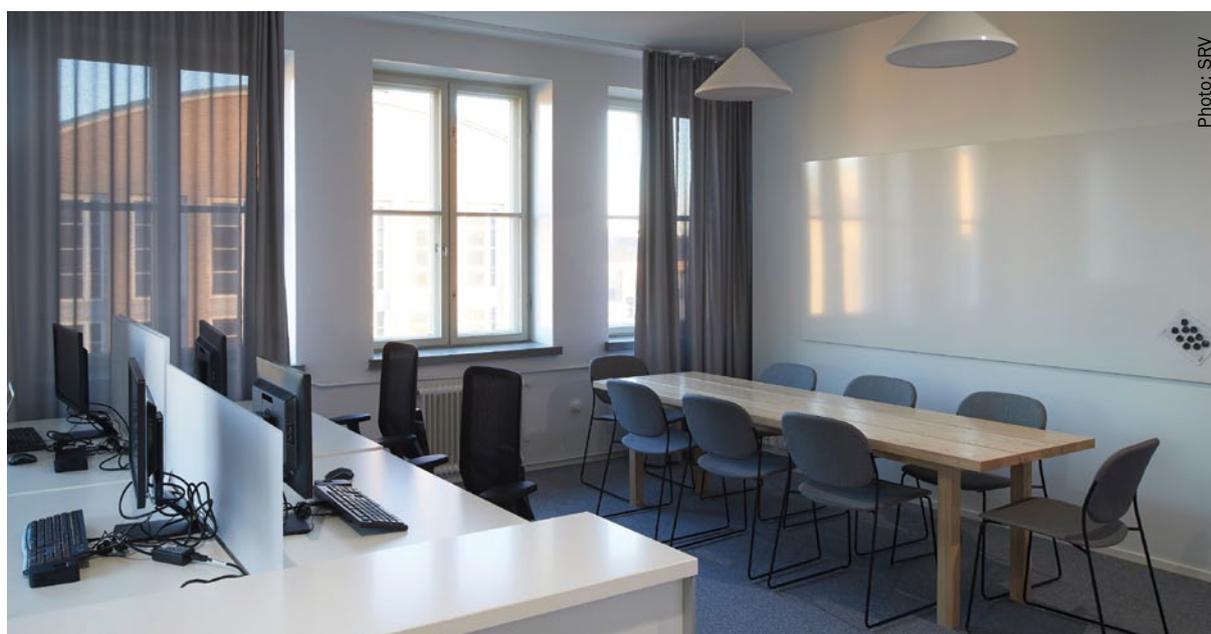


Photo: SRV



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.

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

The first fund under this framework was launched in late 2012. Since then, several more funds with varying strategies have been launched by various banks and investment management companies. All these funds are, to large extent, targeted at private investors. They have grown substantially in recent years.

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. In recent years, the limited liability company structure has become more common in joint venture structures of Finnish and foreign institutional investors.

"Limited liability companies are becoming more common structures in joint venture structures of institutional investors"

The possibility for tax-exempt listed property companies, the structure resembling internationally known REIT-structures, has currently been given only for companies investing in rental residential properties. The provisions for tax transparency for these kinds of companies require the companies to invest only in rental residential properties, to limit its debt capital to a maximum of 80% of the balance sheet, to pay out 90% of the profit as dividends, and to comply with strict accounting rules. The company needs to be listed within three years of its foundation. 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 The Finnish property investment market: volumes, structure and players

3.1 Investment market in 2015

Transactions volume in the Finnish market exceeded €5.5 billion in 2015, which is the second highest annual volume ever and represents an increase of 27% compared to the previous year. Domestic investors' share of all transactions remained high, at 66%.

"Investment activity rose by 27% in 2015 compared to the previous year"

The year was characterised by some large portfolio transactions where domestic institutions established joint venture companies together with international partners. The biggest transaction of the year was carried out by a newly established property company Ankkurikadun Kiinteistöt Oy, who bought a €650 million retail property portfolio rented to Kesko. Pension insurer Ilmarinen, the Swedish AMF Pensionsförsäkring and Kesko are the shareholders of the company. Another major transaction was carried out by Antilooppi Management Oy, which is a newly established joint venture of Ilmarinen and AMF and which bought a €400 million office portfolio from Ilmarinen. The third largest transaction was the foundation of a Nordic property investment firm Serena Properties, owned by Varma and a Swedish private equity firm Ratos, together with the Swedish management company Redito. Upon its foundation, the company bought a nearly €200 million retail property portfolio from Varma.

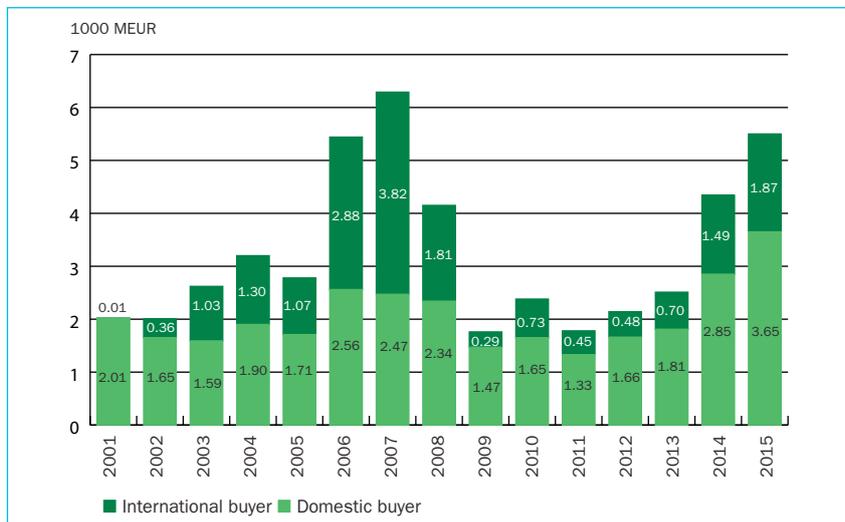
Foreign investors accounted for one third of the total transaction volume. Sales of international investments amounted to some €640 million. Foreign investors thus increased their investments in Finland by some €1.2 billion in 2015. During the year, 11 new foreign players entered the market. The largest newcomers include the Swedish-domiciled Serena Properties, who acquired an €190 million retail portfolio from Varma, as well as the Norwegian Ness, Risan & Partners, who bought a logistics property portfolio from Posti Group. Blackstone's Logicor bought a €100 logistics portfolio from Sponda.

"Several new foreign investors entered the Finnish market in 2015"

Retail properties were the most traded property sector in 2015 with a share of some 32% of the total volume. Residential properties' position in the transactions market has increased rapidly in recent years, and, in 2015, both office and residential properties accounted for some 23% of all transactions.

"The Finnish property market produced a total return of 6.3% in 2015"

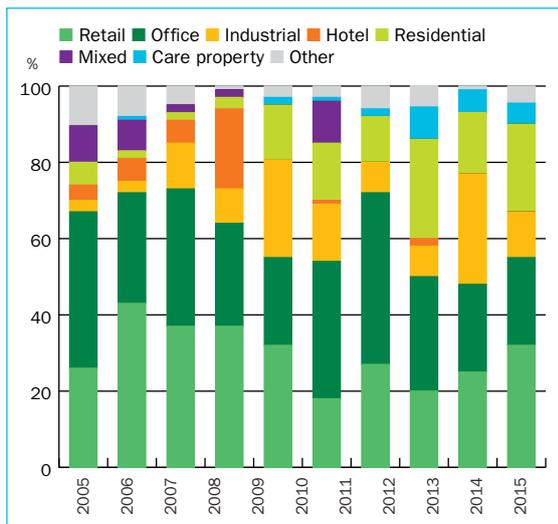
Transactions volume in the Finnish property market



Source: KTI

Distribution of transactions by property type, 2005–2015

% of all transactions



Source: KTI

According to the KTI Index, the total return on the Finnish property market amounted to 6.3% in 2015 (5.6% in 2014), consisting of a capital growth of 0.3% and a net income of 6.0%. Compared to 2014, the net income decreased by 0.2 percentages, due to both decreasing rents and occupancy rates of offices, as well as increasing weight of residential properties in the index. Capital return turned slightly positive after four years of negative development.

3.2 Ownership structure

At the end of 2015, the size of the Finnish professional property investment market amounted to some €54.5 billion. Compared to 2014, this represents a growth of 4.4 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. According to the KTI Index, market values of investment properties only increased by 0.3% on average in 2015.

Institutional investors' share of the total investment universe remains large, 29%, although it decreased compared to 32% at the end of 2014. Institutions have decreased the weight of domestic direct investments in their property portfolios, whereas other investor groups, including domestic property companies and funds as well as international investors have increased their portfolios markedly in recent years.

"In 2015, the Finnish invested property market grew by 9%"

Of the total investment market, rental residential properties' share remained stable at 29%. Of the commercial properties, office and retail properties are the biggest sectors in the investment markets with shares of 29 and 26%, respectively. The share of offices has decreased in recent years due to both their weak investment performance and the increase in other sectors. Retail properties' share has increased due to some significant sale-and-leaseback deals as well as to newly developed shopping centres in investors' portfolios. In recent years, the investment market has expanded to cover also some public use properties, including, for instance, healthcare and educational properties.

Institutional investors

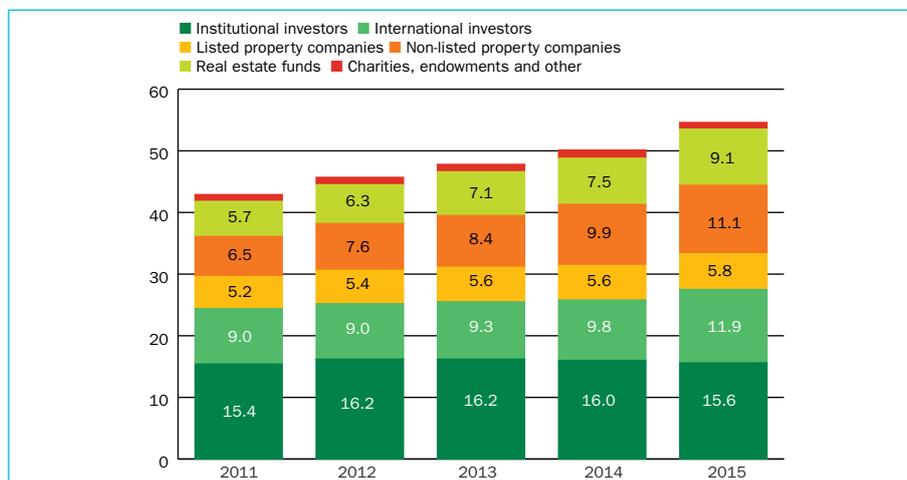
Pension insurance companies and other pension schemes form the majority of the Finnish institutional investment universe. Other participants in the institutional markets include life funds and other insurance companies.

According to the Finnish Pension Alliance TELA, the total value of the investments of pension insurance companies and funds administering the statutory occupational pension schemes amounted to some €176 billion at the end of the third quarter of 2015. During the first three quarters of 2015, the total amount of assets increased by €3.5 billion.

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

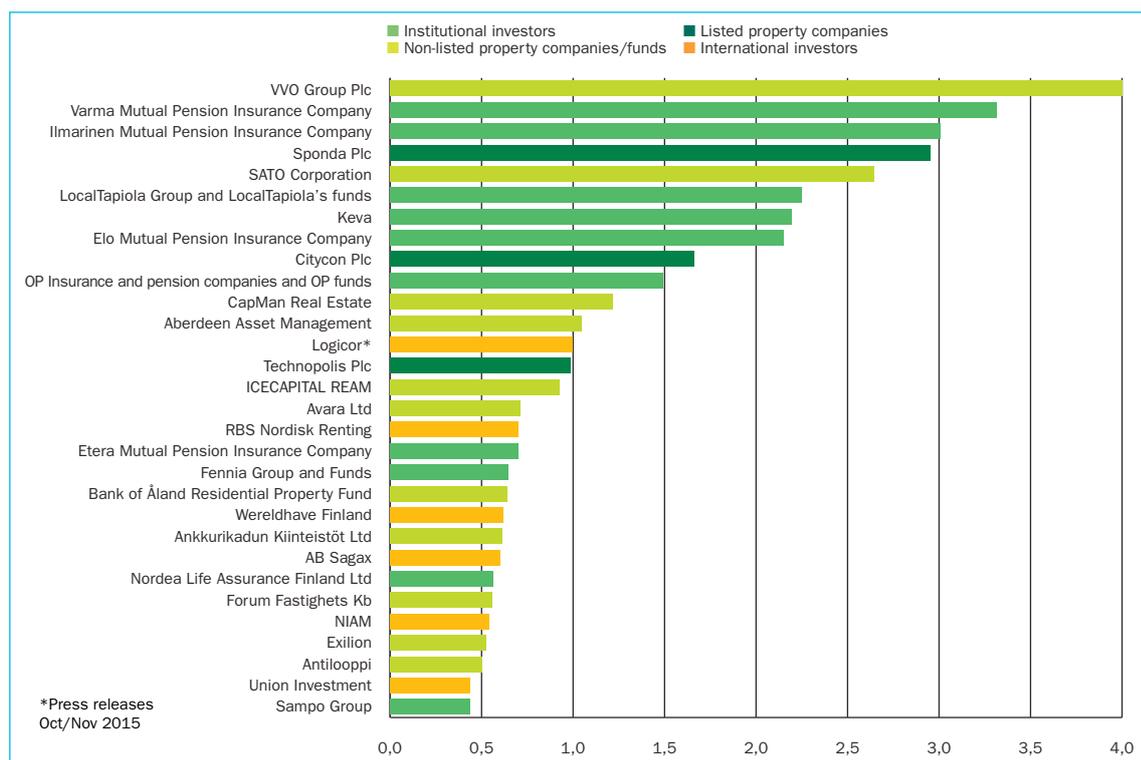
The structure of Finnish property investment market by investor group

Direct property investments in Finland 2011-2015, EUR billion



Source: KTI

Direct property holdings of 30 biggest property investors in Finland fair values of the properties at the end of 2015, EUR billion



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

annual pension contributions and is administered by pension insurance companies, pension funds and foundations organised by employers. Pension contributions are paid by both employers and employees. Supplementary pension systems, based on labour market agreements or individual pension insurance, do not have a significant role in the Finnish pension system.

The reserves collected in the past form the basis of the Finnish institutional investment assets. Due to the retirement of large numbers of people from the 1940s generations, the amount of pensions being paid out is now larger than the amount of annual contributions. The increase in pension funds' investment assets is thus currently based on returns on existing investments. During the second and third quarters of 2015, the total amount of assets decreased, due to both negative returns on investments and the amount of pensions paid out exceeding incoming contributions.

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 4.2% per annum on average in the past 20 years. According to a recent study, the financing of the Finnish pension system is, in the long-term, in balance with the pensions paid out.

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

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 2015, 47% of the pension institutions' assets were invested in listed shares or other equity investments. Some 43% of the assets were invested in bonds and money market instruments.

"Property represents some 9.4% of pension institutions investment portfolios"

At the end of the third quarter of 2015, the share of property investments in the Finnish pension institutions' portfolios was 9.4%, amounting to €16.6 billion. Since the beginning of 2015, the amount of property investments decreased by €0.5 billion.

The vast majority, €13.6 billion of pension institutions' property investments are invested in Finland. Of their domestic investments, property is the biggest asset class, representing some 28% of all investments in Finland.

At the end of the third quarter of 2015, the amount of foreign property investments amounted to €2.9 billion (€2.7 billion at the end of 2014). 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.

"Institutions' foreign property investments have been increasing in recent years"

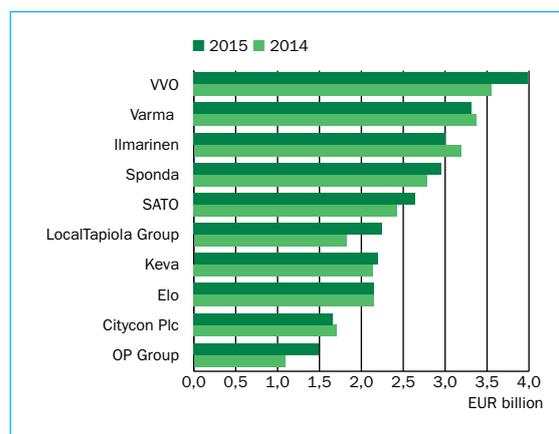
Varma and Ilmarinen are the two biggest pension insurance companies in private sector, with total investment portfolios of €41 and €36 billion, respectively. Both are also major property investors, and have implemented major restructurings in their portfolios in recent years.

Varma's direct domestic portfolio amounts to €3.3 billion, which makes it the second biggest property investor in Finland. In 2014 and 2015, Varma has transferred parts of its property investments into indirect structures by selling assets to property funds and companies. In 2015, Varma also lightened its domestic indirect portfolio in two major transactions by selling its holdings in residential company SATO to the Swedish company Balder and half of its shares of Certuum to Blackstone's Logicor. In total, property investments of Varma amounted to €3.9 billion at the end of 2015.

"Ilmarinen and Varma have transferred their direct holdings into joint venture structures"

Ilmarinen was a major player in several large transactions and restructurings in 2015. In addition to the foundation of Ankkurikadun Kiinteistöt Oy and Antilooppi Oy, Ilmarinen also completed a sale of a large residential property portfolio comprising 1200 rental dwellings, where a domestic fund OP-Rental Yield was the buyer. Balder bought also Ilmarinen's shares in SATO, which made the Swedish listed company the

Direct property holdings of 10 biggest property investors in Finland fair values of the properties at the end of 2014 and 2015, EUR billion



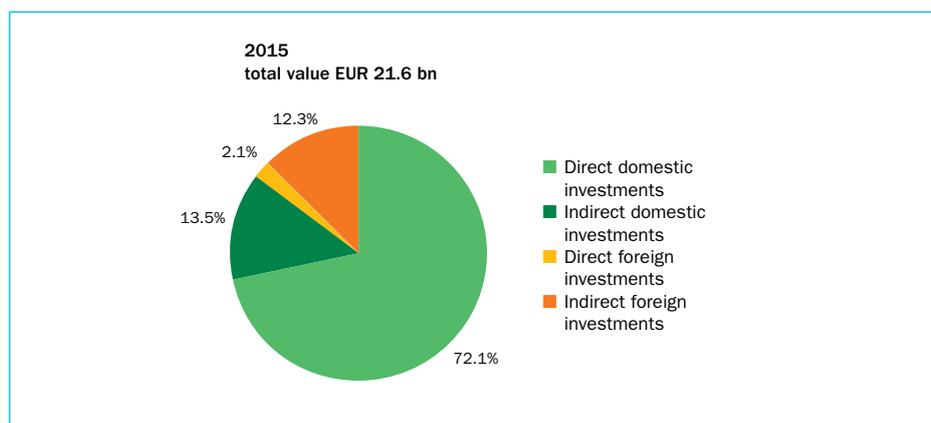
Source: KTI (query for investors)

majority shareholder in the company. At the end of 2015, the total value of Ilmarinen's direct domestic property portfolio amounted to €3.0 billion, which represents a decrease of some €200 million. The total value of Ilmarinen's property investment portfolio increased to €4.2 billion in 2015.

The third biggest private sector pension insurance company is Elo, which was established in the beginning of 2014 through the merger of LocalTapiola pension fund and Pension Fennia. Elo has a total investment portfolio of some €20.5 billion, and its property holdings amount to €2.8 billion. Of the property holdings, €2.1 billion are direct domestic investments.

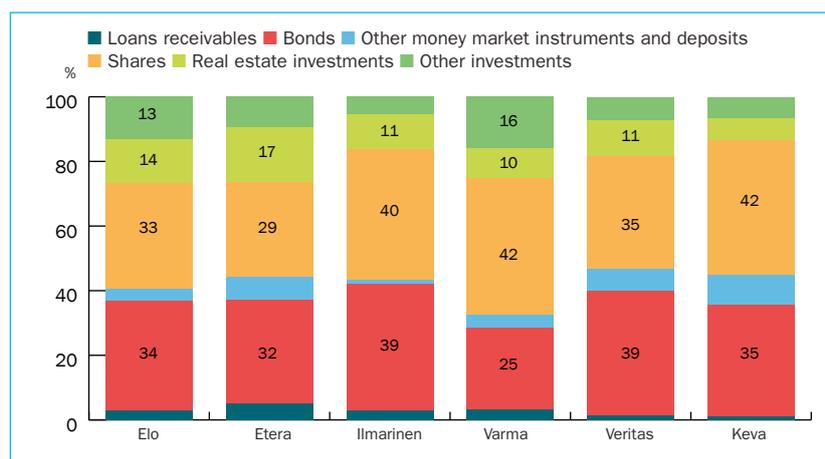
The biggest player in the pension sector is Keva, which handles the pension matters of people employed in the state and local governments and the Evangelical Lutheran Church of Finland. At the end of 2015, Keva's investment portfolio amounted to €44.2 billion. Due to a different solvency regulation framework, Keva's investment portfolio structure is somewhat different from the private sector institutions' portfolios. At the end of 2015, the value of Keva's property portfolio was almost €3 billion, of which some 75% is direct domestic investment. Keva is an active investor in non-listed

Real estate exposure of the Finnish institutions



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

Investment portfolios of pension insurance companies



Source: The Finnish Pension Alliance TELA

property funds. In late 2015, it also made its first direct foreign property investments by acquiring two shopping centres in Sweden.

Despite the increase in indirect investments in recent years, direct investments clearly dominate the pension institutions' property portfolios. Pension institutions' direct domestic investments accounted for some 82% of their total property investment portfolios at the end of 2015.

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, which manages an investment portfolio of €17.9 billion. In the biggest institutions' property portfolios, indirect investments account for 26% on average. Of the indirect investments, some 52% is domestic, and 48% foreign investments.

Pension insurance companies' indirect investments are made through both funds and different kinds of investment companies. Pension institutions are major investors in most domestic property funds. In recent transactions, property holdings have typically been restructured in joint venture investment company structures.

Finnish legislation requires that investment decisions are 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 of their tenant interface in particular, and have thus increased their emphasis on in-house rental management. The management of property maintenance is most often outsourced to service providers.

Some of the main institutions, for instance, OP and LocalTapiola groups, have founded separate management companies to manage their property investment portfolios. These companies have also launched unlisted property funds, where their major 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 3.7% and 6.0% in 2015, which, taking the slightly negative inflation into account is a sustainable level with regard to their long-term liabilities.

Listed property sector

At year end 2015, the combined market value of the property companies listed on the main list of the OMX Nordic Exchange in Helsinki amounted to €3.7 billion. Compared to 2014, this shows an increase of some €700 million. The growth is mainly based on one company's – Citycon's – expansion during 2015.

Citycon is a property company specialising in shopping centre investment, development and management in the Nordic and Baltic countries. In the past few years, Citycon has established its position as the biggest property company listed in the Helsinki stock exchange, and, in 2015, its market value exceeded €2 billion, and value of property portfolio grew close to €5 billion (€3.0 billion in 2014). Citycon's property portfolio, which in the past was heavily concentrated in Finland, has now increased strongly in other Nordic countries. Measured by market value, about 35% of Citycon's property assets are currently located in Finland. In 2015, Citycon acquired the Norwegian Sektor Gruppen, which increased the company's gross asset value by €1.5 billion, and Norway's share of the company's holdings to some 33%. Some 17% of Citycon's assets are in Sweden. In total, the company owns currently 53 shopping centres, of which 20 are located in Finland.

The second biggest listed property company measured by market value, Sponda, currently focuses on office and shopping centre investment and development in the central areas of Helsinki and Tampere. In recent years, the company has implemented this focused strategy by effecting several disposals and selected acquisitions. In early 2016, Sponda increased its portfolio markedly by acquiring six properties in the Helsinki CBD for €576 million, comprising the Forum shopping centre and office properties in its vicinity. In late

2015, Sponda completed the sale of its shares in Certeum, a logistics investment company it established in 2014 together with Varma, for whom it had sold a logistics property portfolio and all fund operations. In December Sponda also sold a logistics property portfolio in Vuosaari Harbor area for a sales price of some €100 million. In both deals, the purchaser was Blackstone's Logikor. Sponda also aims at selling all its properties in Russia and in the Turku region in Finland. The total value of Sponda's property portfolio amounted to €3.1 billion at the end of 2015 (3.1 billion at the end of 2014). The market value of Sponda stood at some €1.1 billion.

"Sponda made a major investment in the Forum shopping centre in early 2016"

Technopolis owns, develops and manages a chain of business park campuses, which combine services with modern office space. The company operates in 8 cities in Finland, and have one campus in Norway, Estonia, Russia and Lithuania. At the end of 2015, the fair value of Technopolis' property portfolio amounted to €1.4 billion (€1.4 billion at the end of 2014), and company's market value stood at slightly under €400 million.

The share performance of the listed property companies was rather flat in 2015, and the OMX Real Estate Sector index showed an increase of 6.7%, while the overall OMX Helsinki index increased by 14.9%.

Orava Residential Real Estate Investment Trust is the only listed property fund operating under the Finnish property fund legislation, which provides tax transparency for listed real estate investment companies investing in rental residential properties. The company was listed in late 2013, and at the end of 2015, the fair value of the company's portfolio stood at €196 million (€131 million at the end of 2014). The company owns some 1700 rental residential dwellings.

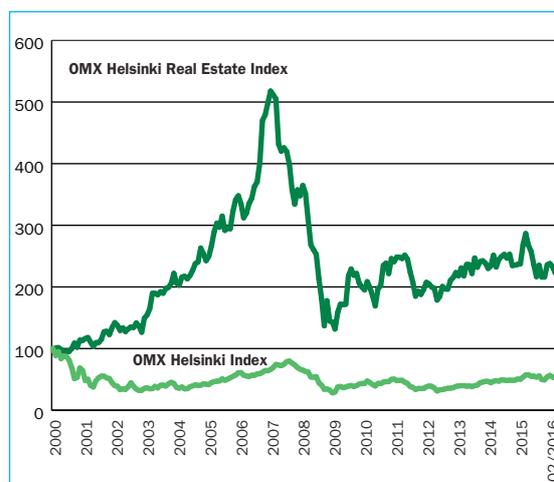
Non-listed property companies

The share of non-listed property companies of the total investment market remained stable at 20% during 2015. In total, their investment amounted to €11.1 billion at the end of 2015.

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.

VVO is the biggest private sector rental residential company, who currently owns 32,500 rental dwellings in some 30 locations. At the end of 2015, the fair value of VVO's property portfolio amounted to €4.0 billion (€3.6 billion at the end of 2014). Finland's two largest private sector pension insurance companies, Varma and Ilmarinen, are VVO's largest owners. VVO's shareholders also include some major Finnish labour market organisations. Having earlier been a major owner of state-subsidised residential properties, the company

Share performance of Finnish listed property companies, OMX Helsinki Index and OMX Helsinki Real Estate Index (index, 7/2000=100)



Source: Nasdaq OMX

currently focuses only on market-based dwellings under the housing brand Lumo. In early 2016, VVO completed a sales of some 8600 subsidised dwellings to Y-Housing, which is a mutual residential property company administered by Y-Foundation.

SATO's current holdings comprise some 23,500 apartments. The fair value of SATO's property portfolio stood at €2.8 billion (€2.5 billion at the end of 2014). Some 80% of the portfolio is located in the Helsinki metropolitan area, 15% in other major cities in Finland and 4% in St Petersburg, Russia. In the past, the majority of SATO's shares were held by domestic institutional investors, but in 2014 and 2015, both Ilmarinen and Varma sold all their shares. Currently, the Swedish Balder owns the majority – some 53% – of the company. Other major shareholders include the Dutch pension fund APG and domestic pension insurance company Elo.

Avara Oy currently owns and manages some 7,600 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. In late 2015, Avara announced that it plans to establish a new residential property fund Avara Asuinkiinteistörahasto I Ky, for which it plans to raise some €100-120 million of equity.

"In 2015, several new property investment companies were established"

Logikor (formerly Certeum) 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. In 2015, Varma and Sponda sold their shares in the company to Blackstone's Logikor, who thereby got a controlling stake in the company.



Photo: SRV

During 2015, several major new property companies emerged through restructurings of institutional investors' property portfolios. Ankkurikadun Kiinteistöt, Antilooppi, and Serena Properties are examples of this kind of specialised companies. Altogether, these three companies made acquisitions of some €1.2 billion in 2015.

Other non-listed property companies investing in commercial property include some major foreign investors that have either established an office in Finland or bought a Finnish company with an existing organisation. These include, for instance, Genesta and IVG Polar. 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. Domestic funds currently account for some 17% of the total investment market.

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

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

There are currently about 20 Finnish real estate fund management companies, managing almost 50 funds.

Finnish property fund management companies have diverse backgrounds, which also significantly affects their strategies. 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. OP Group's Pohjola Asset Management 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.

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

Many of the Finnish funds can be considered as club-deal-like or joint venture arrangements where a limited number of investors join forces to establish a property fund for specific purposes. Examples of these kinds of arrangements include Exilion and VVT. Exilion is a joint venture of four Finnish pension funds, and their fund has invested in office properties in the Helsinki metropolitan area. In late 2015, another joint venture structure managed by Exilion was established by pension funds Elo and Veritas, who, together with Åbo Akademi University Endowment, restructured the ownership of the properties of the Shopping Centre Hansa in Turku. VVT is a joint venture of Varma, State Pension Fund and Tradeka.

Trevian Asset Management is a specialised property fund management company that manages funds investing in, for example, retail and healthcare properties. They also offer asset management services to some foreign investors.

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. Sirius' first fund, launched in 2015, invests in grocery store properties. All the fund's investors are international institutional investors.

"Special mutual property funds have increased rapidly in recent years"

The mutual property fund sector has increased rapidly in recent years. Mutual funds have lots of households as investors, and their emergence has thus opened a new source of capital for the professional property investment market. The most significant managers in this sector include eQ Bank, Ålandsbanken, Pohjola Property Management and insurance company Fennia. eQ manages two special real estate investment funds, with a total property portfolio value of some €420 million at the end of 2015: one specialised in care properties and another investing in commercial properties. In early 2016, the fund made a major acquisition of a €155 million care property portfolio. Pohjola's OP-Rental Yield invests in both commercial and residential properties, and the fund continued to grow rapidly in 2015 through acquisitions and property development projects. In the beginning of 2016, the fund had some €600 million of equity and €150 million of debt capital. Ålandsbanken's fund is specialised in residential property investment. Fennia's fund invests in commercial properties.

International investors

The total holdings of foreign investors amounted to some €11.9 billion at the end of 2015, and they thus account for some 22% of the total Finnish property investment market.

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

Measured by market value of the property portfolio, the biggest foreign investors in Finland include Logicor, RBS Nordisk Renting, the Dutch listed company Wereldhave and the Swedish Sagax. Logicor only entered the market in 2015 and made two major acquisitions whereby it increased its portfolio close to €1 billion. RBS Nordisk Renting has mainly invested in sale-and-leaseback type of assets with long triple-net lease agreements. Wereldhave only has one asset, the Itis shopping centre in its Finnish portfolio. Also Sagax made several acquisitions in 2015, whereby it entered the top-5 list of foreign investors in Finland.

In 2015, foreign investors made acquisitions worth some €1.9 billion, representing one third of the total transaction volume. Foreign investors' disposals totalled some €640 million.

"Foreign investors made new investments worth €1.9 billion in 2015"

The German funds Union Investment and Deka Immobilien are major players in Finland. At the end of 2015, Union Investment held a portfolio worth €400 million in Finland. Both Union and Deka continued increasing their portfolios through new acquisitions in 2015. Deka purchased, for instance, the new Kalasatama health and wellbeing centre, rented to the City of Helsinki, from its developer SRV. Union also sold some assets in Finland as part of the disposal of the Aqua portfolio, which was acquired by the French Amundi. Other German investors active in Finland in 2015 include funds managed by Schroders and Deutsche Bank.

Of all foreign investors' acquisitions in 2015, the majority were made by investors with origins in other Nordic countries. Many Swedish investors in particular are major players in Finland. Swedish investors, who continued expanding their Finnish operations in 2015 include, for instance Sagax, Genesta, Niam, Redito and Hemsö Samhällsfastigheter. Also the Danish fund manager NREP made several new investments during 2015.

New investors who entered the Finnish market in 2015 included, for instance, the Swedish Hemfosa Fastigheter, Norwegian Ness, Risan & Partners, and logistics property investor Logicor.

"Foreign investors made significant indirect investments in Finland in 2015"

A significant amount of foreign capital was also placed in the Finnish property market through various property companies and funds. The biggest indirect investments were made by Blackstone's Logicor, who purchased the controlling stake of the logistics company Certum and by the Swedish listed company Balder, who, in several transactions, became the majority shareholder of residential company SATO. The Swedish AMF Pensionsförsäkring invested in both Antilooppi Management Oy and Ankkurikadun Kiinteistö Oy. The Swedish private equity firm Ratos entered the Finnish market through Serena Properties. Also in the Sirius's new fund some ¾ of investors are from the US, and the rest are from elsewhere in Europe.

Largest direct property transactions in Finland in 2015-2016

ASSET / PORTFOLIO	DATE	PRICE (M€)	PURCHASER	SELLER
36 retail properties, 3 shopping centres (33 in Finland, 6 in Sweden)	2015Q2	605 (portfolio in total 652)	Ankkurikadun Kiinteistöt Oy	Kesko Oyj, Kesko Pension Fund, Kruunuvuoren Satama Oy
Forum block, six retail and office properties in Helsinki CBD	2016Q1	576	Sponda Plc	Forum Fastighets Kb, Föreningen Konstsamfundet r.f.
15 office properties in Helsinki metropolitan area	2015Q2	400	Antilooppi Ky (a joint venture by Ilmarinen and AMF)	Ilmarinen Mutual Pension Insurance Company
22 retail properties	2015Q4	191.5	Serena Properties AB	Varma Mutual Pension Insurance Company
97 retail, office and hotel properties in Sweden and Finland	2016Q1	180 (portfolio in total 450)	Partners Group	Sveafastigheter Fund III
Six office properties in Helsinki metropolitan area	2016Q1	160	NIAM	Elo Mutual Pension Insurance
27 care properties	2016Q1	155	eQ Care	Healthcare I (managed by Northern Horizon Capital)
Three postal centres, one warehouse and one logistics centre property	2015Q2	120	Ness, Risan & Partners (NRP)	Posti Group Oyj
20 retail properties	2016Q1	115	Sirius Capital Partners	Private investors
Three industrial properties	2015Q4	100	Logicor (owned by Blackstone)	Sponda Plc
EY Finland head office property	2015Q1	93.3	Union Investment Real Estate GmbH	Etera Mutual Pension Insurance Company
Shopping Centre Kaari	2015Q3	n/a	NIAM	HOK-Elanto
28 residential properties (1200 apartments)	2015Q2	n/a	OP-Rental Yield	Ilmarinen Mutual Pension Insurance Company

Source: KTI

Public sector

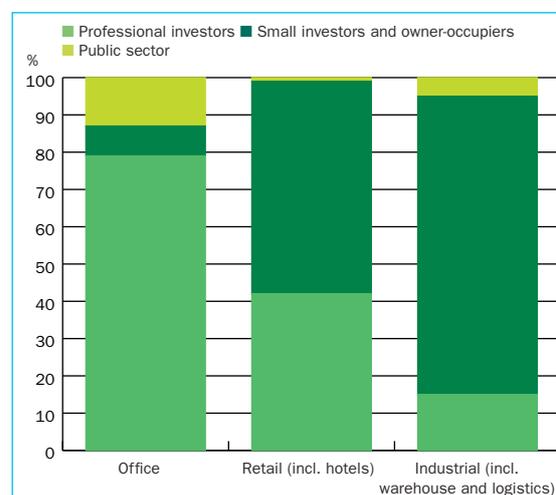
Public sector entities are very important players in the Finnish property market. The Finnish state has concentrated most of its property holdings on a government-owned enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also acts as an intermediary in lease agreements between state agencies and private sector property investors.

Senate is the largest property owner in Finland, with a property portfolio of some €4.7 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 implementing 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, which would thus free significant amounts of space to be sold by Senate properties. Senate has a business unit whose purpose is to dispose of properties that are not needed by state agencies in the long term.

The majority of the Finnish university properties are owned by three limited companies, whose sole purpose is to own and manage university buildings. Two of the companies own and manage university buildings in the Helsinki metropolitan area (Helsinki University Properties and Aalto University Properties), and one elsewhere in Finland (University Properties of Finland Ltd). In 2015, the Finnish state sold its shares in the companies operating in the Helsinki Metropolitan area. These two companies are now fully owned by the universities, while the state remains the minority shareholder in University Properties of Finland Ltd.

Finnish municipalities typically own the majority of properties required for public administration and service provision, such as offices, schools, nurseries and healthcare centres, as well as cultural buildings. It is estimated that the Finnish municipalities' property holdings amount to around €20 billion. Some municipalities, such as the City of Helsinki in particular, also have a significant amount of space that they let to private market players. In recent years, municipalities have started to apply more varying strategies in their service provision, which also impacts property ownership. A big proportion of, for instance, new properties needed for elderly care are currently developed by private investors, and they rent the premises to private sector service providers who sell their services to municipalities.

Ownership structure of commercial properties



Source: KTI

"The planned healthcare service reform will have major impact on property ownership of the municipalities"

The planned reform in social and healthcare services will have a significant impact on property ownership issues as well. Currently, property holdings are organised according to service provision responsibilities: main hospital properties are owned by regional federations of municipalities, while smaller healthcare properties are owned by single municipalities. The centralisation of the management of all healthcare services to regional authorities will also require major restructuring of property ownership and management. The details of these restructurings have not yet been defined, but several working groups are exploring viable solutions. In total, these properties are estimated to amount to some €6 billion.

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

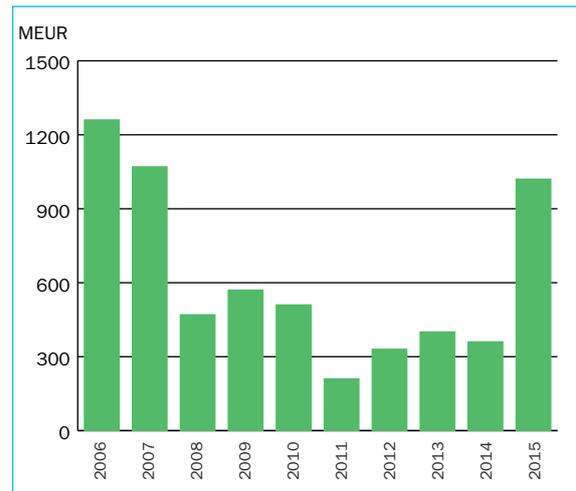
Corporations

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, and owner-occupation is still very common in the industrial sector (approx. 82%). In the retail property sector, the share of owner-occupancy has decreased markedly in recent years, and currently stands at some 57%. Measured by value, the vast majority of office properties, almost 80%, are owned by professional investors.

The broadening and development of the property investment and finance market has enabled the execution of corporations' evolving property ownership and management strategies. Most of the new properties – office properties in particular – are developed by professional investors. During the past couple of years, several major Finnish corporations have also sold their existing property holdings and, in many cases, the companies remained as tenants in these buildings through relatively long leases. In the last decade, Finnish corporations sold more than €6 billion worth of properties, which, for its part, has increased the total size of the investment market. In 2015, the biggest sale-and-leaseback transaction was carried out by Kesko, who sold properties worth €650 million to the newly established Ankkurikadun Kiinteistöt Oy.

S-Group and Kesko, the two major Finnish retail chains, have traditionally been active players in the property market. As a result of the large sale-and-leaseback deal of 2015, Kesko currently holds fewer properties in its balance sheet but it still remains a major player in the retail property development and investment. Of the co-operatives within S-Group, HOK-Elanto in particular has also sold properties

Property disposals of the Finnish corporations, 2006–2015



Source: KTI

to investors in recent years. In 2015, it sold the shopping centre Kaari in Helsinki to Niam's fund.

Industrial companies still typically own their production properties, but even they are beginning to rent more of their headquarters and other office premises. Companies using office space are pursuing increasingly sophisticated workplace strategies, and typically rent their premises. Most companies also emphasise space efficiency, and space usage is typically reduced when companies move to new premises.

3.3 Real estate service sector

Asset and property management services

The asset and property management services market is dominated by domestic and Nordic companies. The 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. In recent years, Realia Management has expanded through acquisitions of smaller domestic management firms, and through these acquisitions it aims at strengthening its position in commercial property management and among institutional investors. In 2015, Realia bought the Finnish management companies Realco and KJ- Kiinteistöjohto.

Corbel Oy is another domestic asset and property management company. The company services, for instance, some Finnish institutional investors and property funds. It also offers housing management services in various locations throughout Finland.

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.

LocalTapiola Property Asset Management and Pohjola Property Management are examples of management companies founded by domestic institutional investors. The companies were originally founded to take care of asset and property management of the shareholders' property portfolios, but they currently also manage several property funds. Trevian Asset Management is an example of a specialized Finnish fund and asset management company.

Catella Asset Management, formerly known as Amplion Asset Management, is part of Catella Group. It is a boutique Nordic real estate investment and asset management company, which manages some international investors' portfolios in Finland.

The global real estate service firms concentrate typically on transaction advisory, brokerage and valuation services in Finland. In 2015, however, Aberdeen made a decision to outsource property management, property accounting and property administration in the Nordics to CBRE. CBRE has earlier offered facility management services to corporations.

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

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

Advisory, valuation and transaction services

The advisory service market includes a colourful mixture of small domestic entrepreneurial firms and big global companies. Of the major management companies, Newsec, Catella Group and Realia Management also offer valuation, advisory and transaction services. Realia currently co-operates with Savills in valuation services. In early 2016, Newsec announced that it has acquired a Finnish transaction and leasing agency firm Tuloskiinteistö, who had previously been the Finnish alliance partner of Cushman & Wakefield.

Of the major international property service firms, DTZ was among the first to enter the market through an alliance agreement with a local company in 2004. In early 2016, Cushman & Wakefield announced that DTZ Finland will become its alliance partner also after the merger of the two companies, and the company will continue its operations under the C&W brand.

JLL 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.



Bonds issued by the Finnish property investors

ISSUER	ISSUED DATE	MATURITY DATE	MATURITY, YEARS	ISSUED AMOUNT, mEUR	INTEREST, FIXED COUPON	TYPE
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 m 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 m Euribor+ 2.25%	secured
Citycon	1.10.2014	1.10.2024	10	350	2.50%	unsecured
Sponda	20.5.2015	20.5.2020	5	175	2.375%	unsecured
Technopolis	28.5.2015	28.5.2020	5	150	3.75%	unsecured
Citycon	1.9.2015	1.9.2025	10	1.4 bn NOK	3.90%	unsecured
Citycon	1.9.2015	1.3.2021	5,5	1.25 bn NOK	3 m NIBOR + 1.55%	unsecured
SATO	10.9.2015	10.9.2020	5	300	2.25%	unsecured
Citycon	16.9.2015	16.9.2022	7	300	2.375%	unsecured

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

Source: KTI

"Transaction advisory services are widely available"

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, who works as transactions adviser for domestic and Swedish investors in particular, and who just recently announced that they have started collaboration with the Swedish Pangea Property Partners.

In addition to the actual transaction services firms, corporate finance services are offered by some domestic companies, including Advium Corporate Finance and Aventura 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 Group, Danske Bank and SEB Merchant Banking. Of these banks, SEB has recently been the most active in financing major commercial property transactions or projects.

"Local banks are the major providers of debt for real estate investments"

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

In the current market conditions, debt finance is relatively easily available for real estate investments and transactions. Lenders do, however, favour core assets with stable cash-flow and solvent, well-known investors. Good availability of debt has decreased the margins for best properties and clients in particular. On the other hand, tightening regulation increases banks' cautiousness in property finance.

Solvency II framework has made it more attractive for institutional investors, for instance life funds, to provide debt financing for property investments. Pension and life insurance funds can either provide property debt directly to their clients, or act in co-operation with banks in financing deals. In current market circumstances, however, banks have proven to be more competitive, and the volume of debt provided by institutions has remained non-significant.

Another source of debt capital is debt funds, which provide either senior or mezzanine debt for property investments. This sector's volume is, however, currently insignificant in Finland. In early 2016, the Swedish Brunswick Real Estate Capital announced that it is preparing the launch of a new debt fund that would focus half of its lending capacity, some €400 million, into the Finnish property market.

"Major property companies use several sources of finance"

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. Citycon and SATO have also acquired credit ratings in order to improve the availability and terms of bond 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. Skanska CPD is 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. YIT is just about to start the major Tripla project in Pasila, Helsinki.

All of these companies also develop residential properties – to be sold directly both 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, and in 2015, the total amount of new dwellings sold to property funds and companies increased to €700 million. In the residential property development sector, there are also numerous, typically smaller local players, who mostly develop apartments for homebuyers.

Some owner-occupiers – large retailers S Group and Kesko, in particular – are significant and professional property developers. They typically have strong bargaining power with local authorities in planning issues because they not only increase employment but also bring tax revenues to municipalities. Kesko is currently carrying out a 26,000 sqm shopping centre project in Itäkeskus, Helsinki.

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. In recent years, however, they have entered into joint ventures with other developers in some large projects. In both REDI and Tripla, for example, there are institutional investors as shareholders in the developing company, and they thus share the development risk with the main developer.

"Institutions have entered into joint ventures in major property development projects"

Institutions' development strategies emphasise the redevelopment of existing assets in their portfolios, where they can, for instance, look for new uses for vacant properties.

This is emphasised in current market conditions due to the oversupply of office premises in the Helsinki metropolitan area, which pressures investors to look for new solutions. However, these processes often take a long time, as they most often require changes in planning and thorough studies into technical and financial feasibility.

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. Residential development has also been encouraged by regulators, and pension funds are temporarily allowed to use debt financing in residential development.

Finnish property investment companies also actively develop assets in their own portfolios. Sponda, Citycon and Technopolis are active players in property development in their own core areas both in Finland as well as in other countries included in their strategies. The main ongoing development projects of listed companies include the expansion of Iso Omena in Espoo by Citycon, and Sponda's Ratina shopping centre project in Tampere.

There are also some smaller non-listed property companies and funds active in property development in their niche markets. One example is Renor, which concentrates on redevelopment of old industrial premises. HGR Property Partners is another real estate investment company focusing on real estate development, mainly investing in existing buildings to be redeveloped for some other use. Some property funds also include property development in their strategy.



4 Property sectors: market structure, practices and investment performance

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

In 2015, this structural development continued to strengthen. The total amount of residential properties in the invested market increased by €1.2 billion, due to both increase in market values and the development of new properties in investors' portfolios. The total investment volume of retail properties also increased, due to some sale-and-lease-back transactions in which new assets were transferred from corporations to professional investors' portfolios. The share of office properties decreased further as their market values continued to slide down, and, at the same time, the volumes in the other sectors increased.

4.1 The office market

Stock

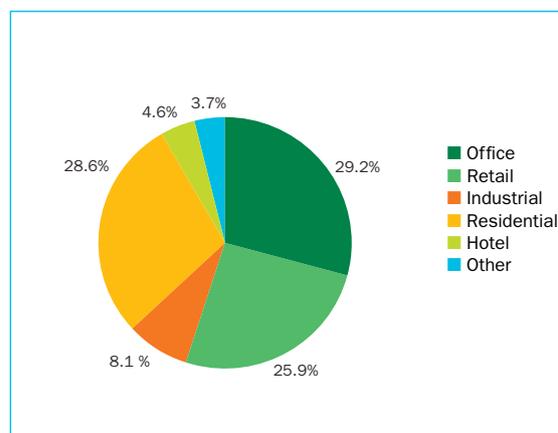
The total stock of office space in Finland is some 19.4 million square metres. Of this, about 8.6 million square metres is located in the Helsinki metropolitan area, and another 3.6 million in six other major cities. The dominance of the Helsinki metropolitan area in the Finnish economy and commercial property market is greater than in many other European centres of the same size, which is also reflected in the office stock.

"44% of the Finnish office stock is located in the Helsinki metropolitan area"

Office stock in the Helsinki region has increased significantly in recent years through new development. Between 2008 and 2015, some 105,000 sqm of new office space was completed annually on average. After several years of high development activity, there were only some 35,000 sqm of offices under construction at the end of 2015.

In 2015, some 80,000 sqm of new office space was completed in the Helsinki metropolitan area. The biggest individual project was the completion of the OP Group's Vallila

The structure of Finnish property investment market by sector
total size EUR 54.5 bn



Source: KTI

Campus with a leasable area of some 30,000 sqm. Sponda's Ilmalanrinne project in Pasila was another major project completed in 2015.

"Office development activity is low"

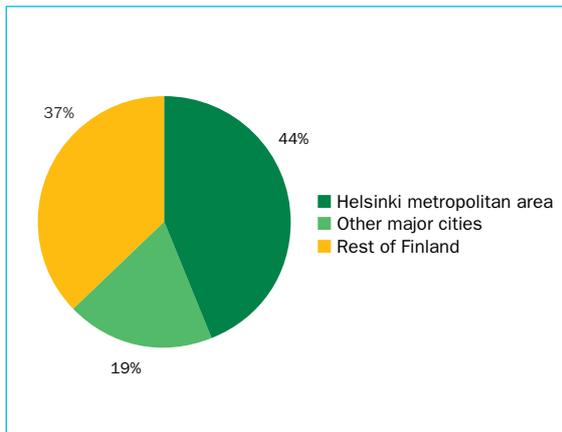
In the major cities outside the Helsinki metropolitan area, office development activity has remained rather low and new projects are typically only started when quite high pre-letting criteria are met. At the end of 2015, there were ongoing development projects only in Tampere, where three office buildings were under construction, and in Oulu, where one building is underway.

Players

Offices have traditionally played a significant role in Finnish institutional property portfolios, although their share has decreased rapidly in recent years due to their poor investment performance. The majority, some 77% 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 the past decade many companies have sold their headquarter properties to investors, and, in the case of new development, offices are

Distribution of office stock by location, sqm



Source: Statistics Finland

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.

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

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

"Finnish prime offices offer a positive yield gap compared to most other markets"

Offices in the Helsinki CBD continue to be the most attractive investment target due to their secure cash-flow and liquidity. In recent years, these prime properties have mainly been acquired by foreign investors who have been attracted to Finland by the positive yield gap compared to most other European cities.

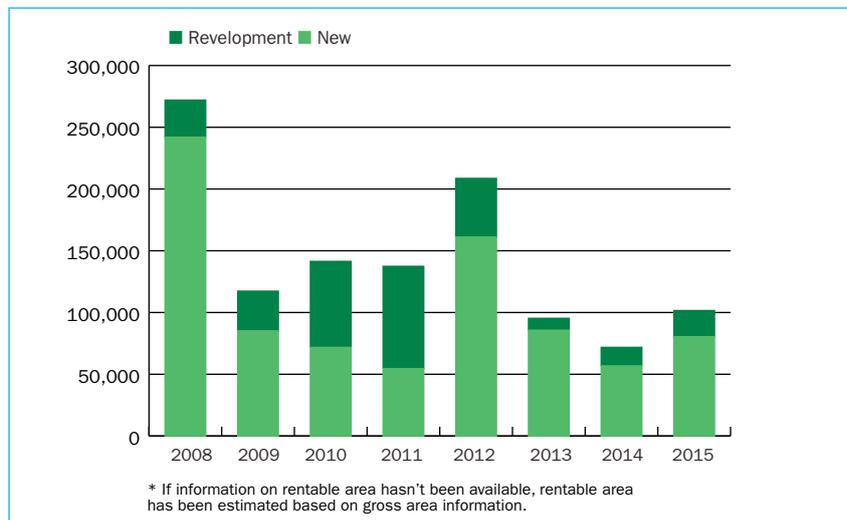
"Transactions volume of office properties amounted to €1.3 billion in 2015"

The largest office transaction of 2015 was the foundation of Antilooppi, which first bought a €400 million property portfolio in the Helsinki metropolitan area, and who later in the year grew through some single-asset acquisitions. Otherwise, office property transactions in 2015 were mostly single-asset transactions made of modern, well-located properties. The biggest of these kinds of transactions include EY headquarters in the Helsinki CBD, which was acquired by Union Investment, and the Sola Business Valley in Espoo, which was purchased by a fund managed by Deutsche Asset Management.

Rental practices

Rental practices in the office market are varied. The terms of rental agreements differ significantly between different office sub-categories. In multi-tenant office buildings, rents are most often gross rents, which include operational costs. Operating costs can also be charged separately to tenants. Typical operating costs for office properties vary between €3.50 and €4 per square metre, depending on the location and characteristics of the building.

Completions of offices in the Helsinki metropolitan area in 2008-2015



Source: KTI, RPT Docu Oy

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

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

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

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

In recent years, the increase in office occupiers' flexibility demands has brought up a need for more flexible office space supply. Property owners have responded to this need through new kinds of co-working or flexible space concepts, where occupiers can rent space and acquire business services for short-term and temporary use.

Rental market – offices

During the past years, the differences in the rental performance of prime and secondary office areas have increased. Best premises in prime areas continue attracting tenants despite the challenging economic conditions, whereas in the secondary areas, vacancy rates remain high and rents continue decreasing.

The Helsinki CBD office market has proven its resilience in the recent challenging market conditions; however, even in the city centre, the top rents stopped increasing during 2015, and vacancy rate increased markedly. According to the RAKLI-KTI Property Barometer, the outlook for office rents is, however, slightly positive in the CBD.

In most other office areas, the performance is dependent on the micro location and characteristics of the individual asset in question. Even some established office areas, such as the airport area in Vantaa and Keilaniemi in Espoo, suffer from relatively high vacancy rates. On the other hand, the Ruoholahti area in Helsinki has attracted several large tenants recently, and the vacancy rate has decreased.

The vacancy rate of offices remains high in the Helsinki metropolitan area, at 13.3%, according to Catella Property. At the end of 2015, there were some 1.1 million sqm of vacant office space.

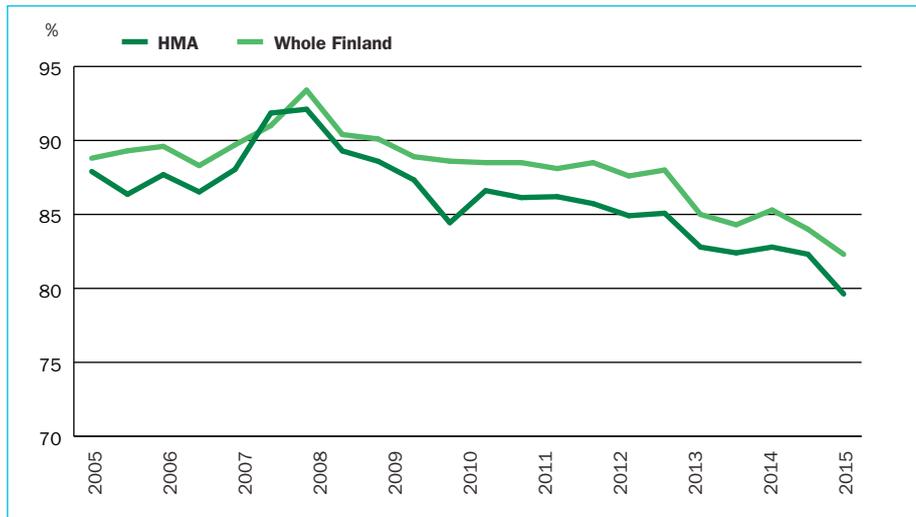
"Office space demand pressured by sluggish job growth and increased space efficiency"

Due to some major leasings, rental market activity has remained rather high. However, as job growth remains sluggish, and as most occupiers aim at increasing space efficiency, tenants typically move to smaller premises, which increases the amount of empty space in the market.

Active new development and leasing market activity has kept gross take-up rather stable, at some 300,000-350,000 sqm per annum.



Office occupancy rates in the Helsinki metropolitan area and whole Finland



Source: KTI Rental database

In KTI's rental database, the occupancy rate of office premises in major investors' portfolios stood at about 80% for all of Finland at the end of 2015, which represents a decrease of some 3 percentage points in the past year. Occupancy rates remain the lowest in Espoo, and have now decreased below 75%.

Landlords are pursuing several actions to respond to the vacancy issue. In rental management, various means – including rent-free periods and tenant improvements – are being applied in order to attract and retain tenants. Many landlords are also developing new kinds of space and service concepts in order to attract increasingly demanding tenants. For properties suffering from long-term vacancy, redevelopment opportunities are being actively explored. Old offices have, depending on their location, been developed for hotel or residential use. Change of use projects are, however, often difficult or even impossible to execute due to planning issues and / or technical characteristics of the buildings. In total, some 60 office buildings, comprising some 270,000 sqm, have been redeveloped into residential, hotel or healthcare property use in the Helsinki metropolitan area since 2007.

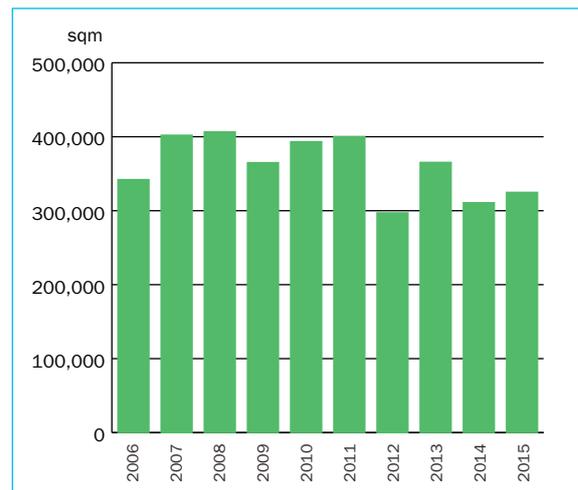
In cities outside of the Helsinki region, offices are typically concentrated in city centres and one or two office areas outside city centres. Prime office rents and vacancy rates in major cities remain mostly stable.

According to the KTI Index, offices produced a total return of 6.1% in 2015 (4.0% in 2014). After several years of decreasing capital values, a slightly positive capital growth of 0.2% was recorded for 2015. Income return decreased from the previous year pressured by both decreasing occupancy rates and rents.

Office rents and yields in Helsinki and other European capitals

Despite the challenging market conditions, Helsinki CBD offices continue to perform well. Office yields have continued decreasing, and in the latest RAKLI-KTI Property Barometer, carried out in October 2015, they stood at the lowest level ever in the barometer's 20-year history, at 5.0% on average. For the best properties, yields are currently well

Office gross take-up Helsinki metropolitan area



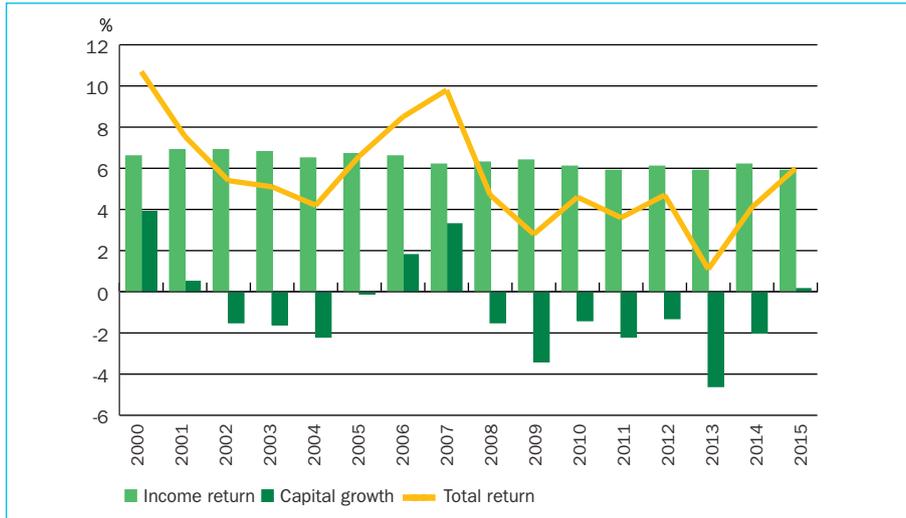
Source: KTI

below this. Despite the yield compression, Helsinki still offers a positive gap compared to other European capitals.

Strong investment demand has pressured yields also in other well-established office submarkets in the Helsinki metropolitan area. However, in secondary areas and in all cities outside the Helsinki region, yields have remained stable or even increased slightly. International investment demand is mainly targeted at the Helsinki area, and therefore, investment demand remains clearly lower in all other regions.

Top rents in the Helsinki CBD currently stand at some €30 per sqm per month. During the first half of 2015, the KTI rental index for CBD showed an increase of some 1%, but, during the latter half, the index decreased by 0.5%. The outlook of rents turned, however, slightly more positive towards the year-end, according to the RAKLI-KTI property barometer.

Total returns on office investments, 2000-2015



Source: KTI Index

4.2 The retail market

Stock

Altogether, there are some 29 million sqm of retail space in Finland. In Statistics Finland's data, this also includes hotel properties. About 3.8 million sqm of the retail space stock is located in the Helsinki metropolitan area, and 5.4 million in other major cities.

According to the Finnish Council for Shopping Centres, there are 93 shopping centres with a total leasable retail area of 1.9 million sqm. The biggest 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. Therefore, the retail property stock owned by professional investors has increased steadily in recent years due to both retail corporation's sale-and-leaseback transactions and new

development. In the past years, retail properties' share of all transactions has varied between one fifth and one third. In 2015, retail properties were the most traded sector in the transaction market, supported by a few significant retail property portfolio transactions. Of the total property investment market, retail properties' share currently stands at 26%.

"Retail property development is currently active in the Helsinki metropolitan area"

Within the past 10 years, retail property stock in the Helsinki metropolitan area has increased by more than 20%. Retail property development continues to be active, and at the end of 2015, there were some 190,000 sqm of new retail space under construction, and some major projects just about to

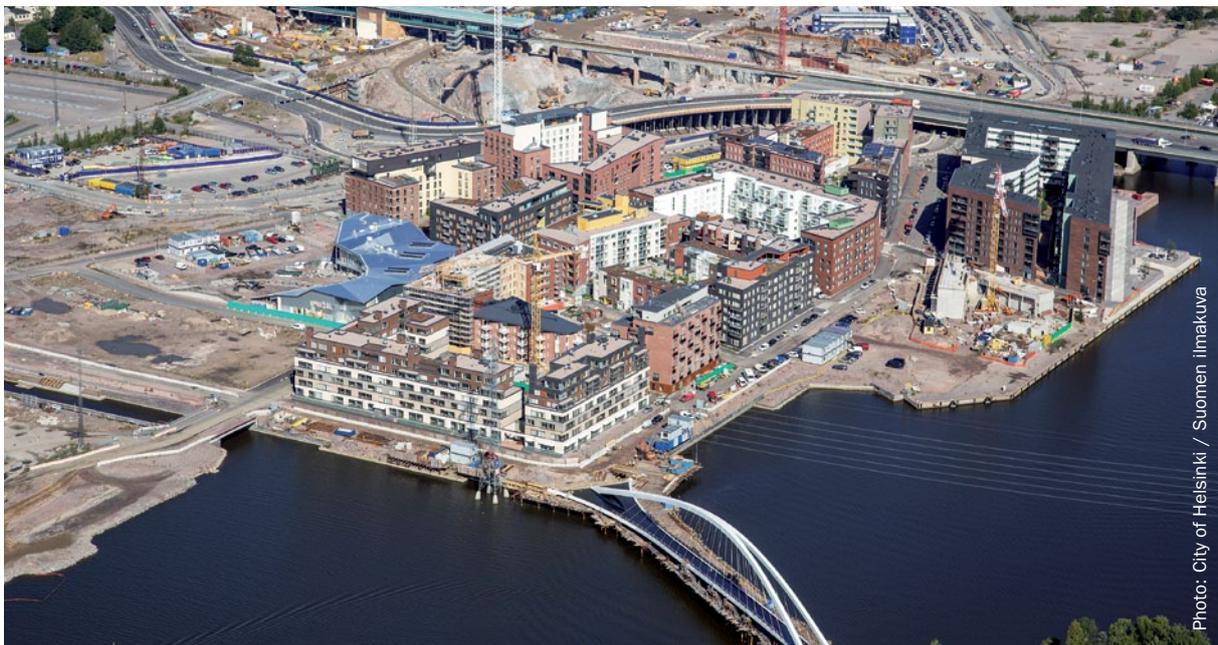
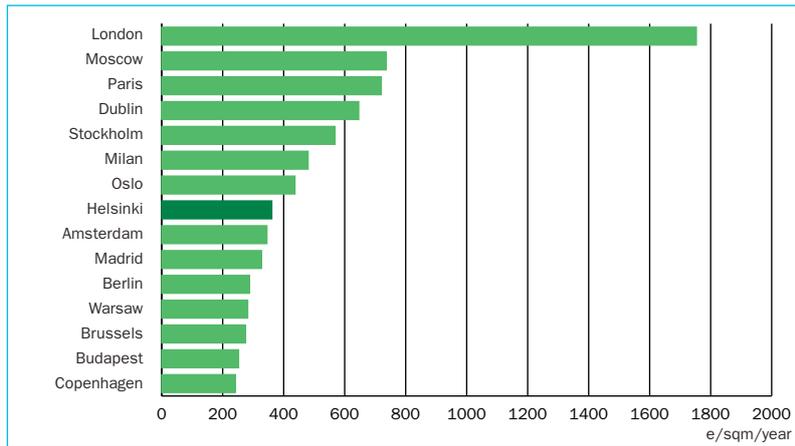


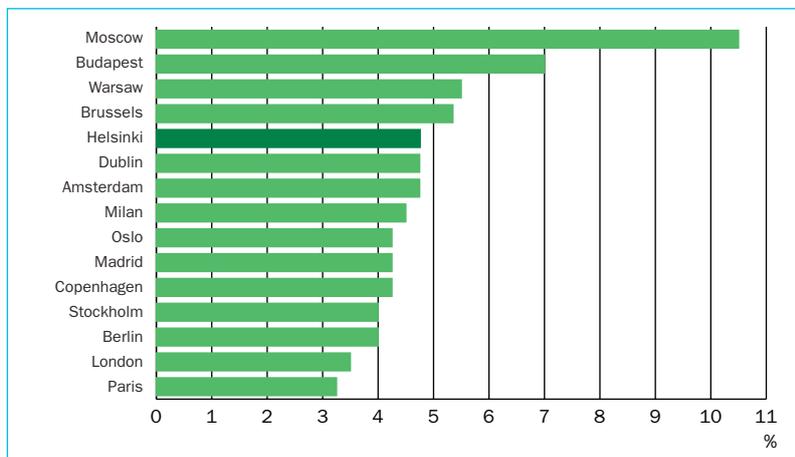
Photo: City of Helsinki / Suomen Ilmakuva

Prime office rents in Helsinki and other European cities, Q4/2015



Source: JLL, KTI (Helsinki)

Prime office yields in Helsinki and other European cities, Q4/2015



Source: JLL, KTI (Helsinki)

be started. New development is driven by the increasing population of the capital city, as well as by new metro and railway connections underway. New development is concentrated in large retail units with good public traffic connections. Outside the Helsinki region, there are also major shopping centre projects underway in Tampere, Oulu and Jyväskylä.

Players

Within the past 10 years, retail properties' share of the KTI Index database has increased from 19% to 28%. 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. The two major Finnish retailers, Kesko and S Group, are also major players in retail property development and investment.

Citycon is the biggest player in the Finnish shopping centre market with its 20 shopping centres across Finland. Also Sponda is currently strengthening its position in the

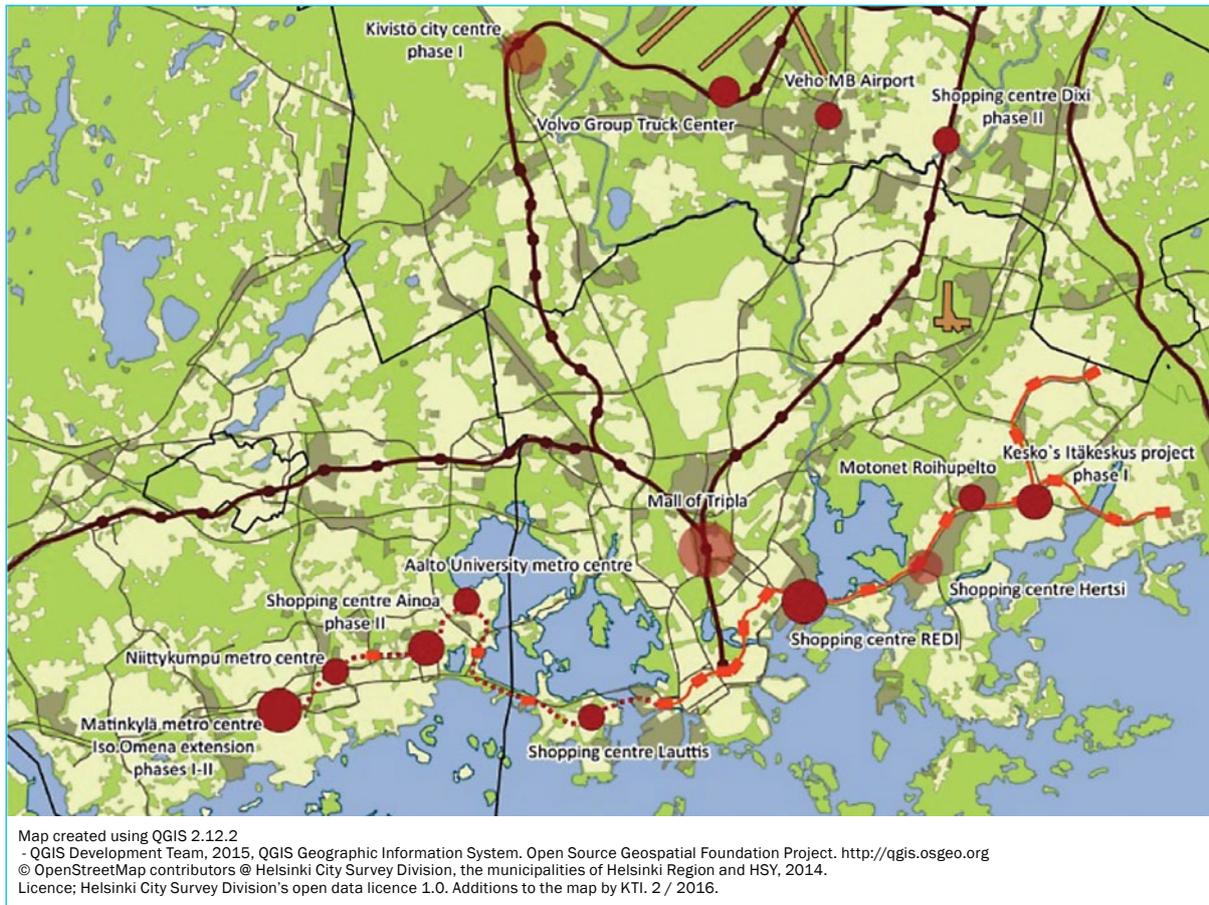
shopping centre market. In 2015, it started the construction of the Ratina centre in Tampere, and in early 2016, it acquired the shopping centre Forum in the Helsinki CBD.

"Retail properties continue to attract both foreign and domestic investors"

Some Finnish pension institutions own whole, typically regional, shopping centres in which they typically invest during quite early phases of development. For example, Varma has invested in shopping centres in the cities of Tornio and Hyvinkää, and Keva owns a newly developed shopping 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 Puuvilla in Pori.

Major retail development projects in the Helsinki metropolitan area

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



In 2015, Etera acquired 50% of a smallish centre in Helsinki from its developer Hartela.

"Investors believe in large shopping centres with good traffic connections"

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

The Finnish shopping centre market has also attracted some specialised foreign property companies and funds such as Wereldhave and Unibail-Rodamco, as well as retail funds managed by CBRE Global Investors and Cornerstone Real Estate. Also Allianz Real Estate has entered into a joint venture investment in the Kamppi shopping centre with Cornerstone. In 2015, Niam's fund acquired the shopping centre Kaari in Helsinki.

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. In recent years, OP-Rental Yield fund has also invested in some retail centre schemes, most recently in the Niittykumpu metro centre in Espoo. In late 2015, ownership of the Hansa shopping centre in Turku was restructured as a limited partnership between the former direct property owners Elo, Veritas and Åbo Akademi University Endowment. Exilion will be the manager of the centre. Retail chains Kesko and S Group are also investors in shopping centre properties.

Ankkurikadun Kiinteistöt is a newly established major player in the Finnish retail property investment market. The company was founded in 2015 as a joint venture between retail chain Kesko, Ilmarinen and the Swedish AMF Pensionsförsäkring. The company owns some €600 million worth of retail properties, including three shopping centres in Finland. Other newcomers in the retail property investment market include Serena Properties, a joint venture between Varma and the Swedish Ratos, as well as a new fund established by Sirius Capital management, which has raised its capital from foreign investors.

"Several new retail property investment structures were set up in 2015"

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. In many regional cities, high street shops typically compete for consumers with out-of-town shopping centres.

During the past few years, several new international retail chains have entered the Finnish market, attracted by both the increasing population and modern space supply in main cities.

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 in several major transactions.

The Finnish daily goods market is dominated by S Group and Kesko, with shares of 46% and 33% of total sales in 2014, 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.

In late 2015, Kesko announced it plans to acquire Suomen Lähikauppa. The merger is still subject to competition authorities' approval. In early 2016, the Swedish Sagax published a plan to acquire a €90 million retail property portfolio mostly rented to Suomen Lähikauppa. This property portfolio deal is also conditional to the confirmation of Kesko's acquisition of Suomen Lähikauppa.

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 indefinite time period. These kinds of terms are typically applied in high street shops especially.

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 2016

Retail sales continued to perform poorly in 2015. There were, however, significant differences between retailer categories: the sales of daily goods decreased by 0.8%, mainly due to decreasing food prices, while some specialty retailers increased their sales. The outlook for retail sales also looks sluggish: the growth of private consumption is expected to grow only by 0.5-1.0% in 2016.

In the retail markets, shopping centres performed slightly better than the overall retail sales in 2015. According to the follow-up of KTI and the Finnish Council of Shopping Centers, the amount of visitors in the Finnish shopping centres increased slightly, by 0.4% in 2015, but sales decreased slightly, by 0.6%. Towards the end of the year the outlook turned more positive, and during the last quarter, the number of visitors increased by 3.0% and total sales by 1.8%. There were, however, significant differences in the development of sales between different retailer categories.

Top 10 Shopping centres in Finland

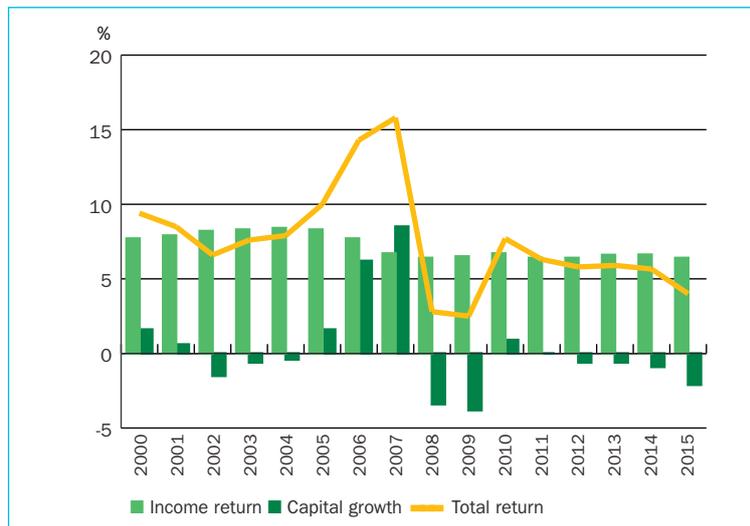
CENTER	RETAIL NLA	MAIN OWNERS	LOCATION
ITIS	106,165	Wereldhave Finland Ltd, Kesko Plc	HELSINKI
SELLO	97,900	Keva, Etera, Elo	ESPOO
IDEAPARK	91,712	Private investors	LEMPÄÄLÄ
JUMBO	85,000	Unibail-Rodamco, Elo, HOK-Elanto, Kesko Plc	VANTAA
MATKUS	65,000	Ikano Retail Centres Kuopio Oy	KUOPIO
MYLLY	60,700	Kaupakeskus Mylly Ltd	RAISIO
WILLA	53,514	Varma, CapMan Real Estate, EjendomsInvest Oy Ab, HOK-Elanto	HYVINKÄÄ
ISO OMENA	51,600	Citycon Finland Oy	ESPOO
VETURI	48,500	Ankkurikadun Kiinteistöt Oy	KOUVOLA
KAARI	47,445	Niam	HELSINKI

Prime retail rent in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

Total return on retail investments, 2000-2015



Source: KTI Index

"Shopping centres performed better than retail sales on average in 2015"

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

In the Helsinki CBD and in the best shopping centres, prime retail rents have remained stable during the past year. According to the RAKLI-KTI Property Barometer, prime rents in the Helsinki CBD stood at some €110 per sqm per month on average, which is about the same level as the previous year. Respondents expected rents to decrease in the future. However, rents in the best locations remain

clearly above the average, and seem to be less vulnerable to cyclical changes.

According to Catella, the vacancy rate for Helsinki metropolitan retail markets stood at 4.6% at the end of 2015 (4.7% at the end of 2014). In the KTI rental database, the occupancy rate of major investors' retail property portfolios remained healthy, at some 95%.

Total return on retail property investments amounted to 3.9% in 2015 (5.7% in 2014). Income return decreased slightly to 6.4%. Capital growth remained negative at -2.3%. Shopping centres performed slightly better than retail properties in general, and produced a total return of 4.2%.

4.3 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.



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

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.

About 65% of the Finnish households live in owner-occupied homes. Home ownership is widespread in all forms of housing, including apartments as well as detached and terraced houses and single-family houses. 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 43% of households live in rented dwellings, while the rate for whole Finland stands at 32%.

"Rented housing is more common in major cities than elsewhere in Finland"

In total, there are some 820,000 rental apartments in Finland. Of these apartments, some 390,000 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 – e.g. VVO, SATO and Avara – also own subsidised dwellings. VVO and SATO in particular have, however, emphasised non-subsidised housing supply in their strategy and have thus decreased their subsidised holdings in recent years. 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 total supply of subsidised stock has decreased in recent years. The decrease is mainly caused by the termination of the loans for buildings from the 1970s.

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.

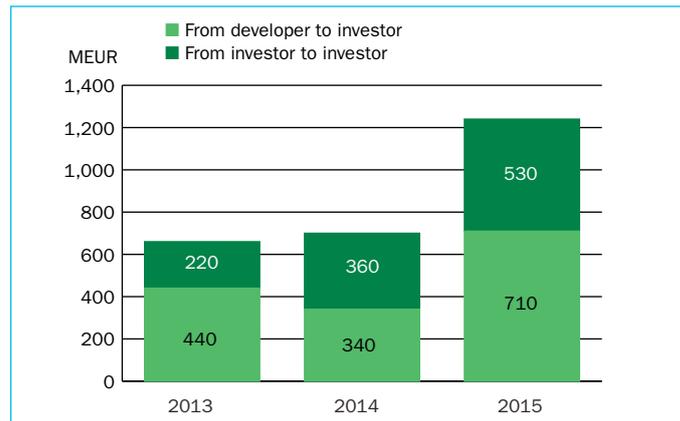
The government is currently planning to introduce a new subsidy framework to boost the supply of moderately priced rental dwellings in major cities. This framework is based on a 10-year interest subsidy, during which period the dwellings have to be rented to low-income tenants for moderate rental levels. This proposal is currently being circulated for comments. Another planned change in regulation would ease the public utility regulation of the companies entitled for public subsidies, but, at the same time, to limit their possibilities for profit distribution. The comments are due by end of March, and the proposed legislation is planned to come into force in late 2016.

Non-subsidised rental housing stock currently amounts to some 435,000 dwellings. The stock has increased markedly in recent years, both through new construction, and, to a lesser amount, also through the termination of the restrictions of subsidised stock. Finnish households have also increased their investments in rental dwellings in recent years.

In 2015, the transactions volume of rental residential property portfolios amounted to €1.2 billion, which is the highest volume ever. Up until 2012, annual transactions volumes varied between €200-300 million, and in 2013 and 2014, the volume increased to €600-700 million.

Of the total amount of transactions, some 43% were portfolio transactions of existing buildings between two investors. Some €0.7 billion were transactions of newly developed buildings sold by construction companies. In these transactions, purchasers were most commonly residential property funds who continued to expand their portfolios rapidly.

Rental residential property transactions by player group



Source: KTI

"Demand for rental housing is the main driver for the growth in housing construction"

According to the estimations of RT, the Confederation of the Finnish Construction Industries, the construction of some 27,000 dwellings was started in 2015, which represents a slight increase in comparison to 2014. Of all started dwellings, some 21,000 are in different kinds of apartment buildings. Investment demand for rental residential housing stock is currently the main driver for the growth in residential construction. The share of the Helsinki region is more than 50% of the non-subsidised housing construction.

Players

The majority of the subsidised housing stock, some 240,000 dwellings, is owned by the Finnish municipalities. Heka Oy, a company owned by the city of Helsinki, is the biggest player in this segment with around 47,000 apartments. The rest of the subsidised stock is owned by private, non-profit

companies. The most significant players in this segment include VVO, SATO and Avara.

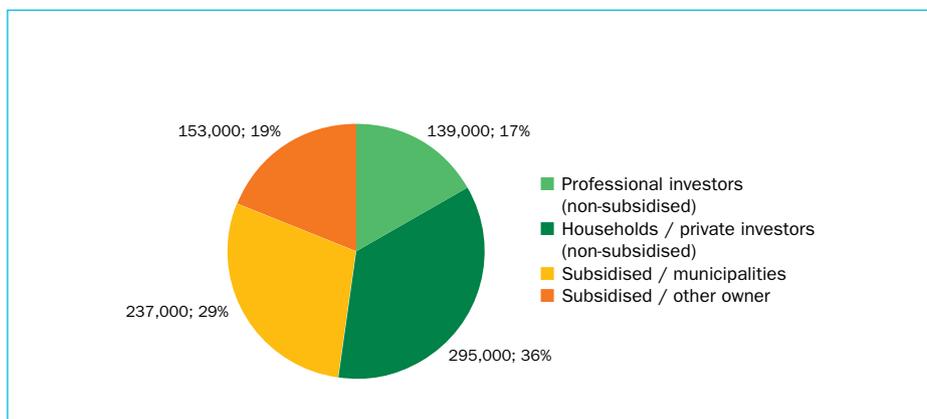
Of the total supply of non-subsidised rental residential stock the majority, some two thirds – about 295,000 dwellings – is owned by small investors, mainly households. The so-called professional residential investment market has increased rapidly in recent years and currently consists of some 140,000 dwellings.

"Supply of rental housing has increased rapidly in recent years"

VVO, SATO and Avara are the biggest specialised residential property investment companies in Finland. VVO and SATO in particular have, in recent years, concentrated in non-subsidised stock and have reduced their subsidised holdings.

Many pension funds are also significant players in the rental residential market. Residential properties are a

Ownership structure of rental apartments in Finland total 824,000 rental apartments



Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

Residential construction activity

Started residential dwellings	2010	2011	2012	2013	2014	2015*	2016*
Apartment buildings	21,000	21,200	20,100	19,800	19,300	20,700	20,200
Non-subsidised	9,800	12,700	13,900	13,400	11,900	12,700	12,700
Subsidised	11,200	8,500	6,200	6,400	7,400	8,000	7,500
Single-family homes	12,500	11,600	9,800	8,100	6,800	6,000	6,000
Non-subsidised	12,500	11,000	9,800	8,100	6,800	6,000	6,000
Total	34,500	33,700	31,000	28,100	26,300	27,000	26,500
Non-subsidised	23,300	2,500	24,800	21,700	18,900	19,000	19,000
Subsidised	11,200	8,500	6,200	6,400	7,400	8,000	7,500

*Estimate

Source: Statistics Finland, ARA, RT

recognised sector in the institutional investment market, and Varma, Ilmarinen, Keva and Elo, for instance, all have several thousand rental dwellings in their portfolios. Many institutions also have significant indirect exposure to residential investment through specialised property companies and funds.

There are currently 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 OP Group's Pohjola Property Management and Ålandsbanken whose branch networks create a good platform for distribution to private investors. These funds are open-ended funds, which operate under the legislative framework of special mutual investment funds.

"Special mutual property funds investing in residential properties have attracted plenty of households' investment capital"

Foreign investor interest in the Finnish residential market has remained low, and there are no major direct investors in the market. In 2015, however, the Swedish listed property company Balder acquired the majority of the share ownership of SATO. Another 23% of the company is owned by the Dutch pension fund APG.

Rental practices

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

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

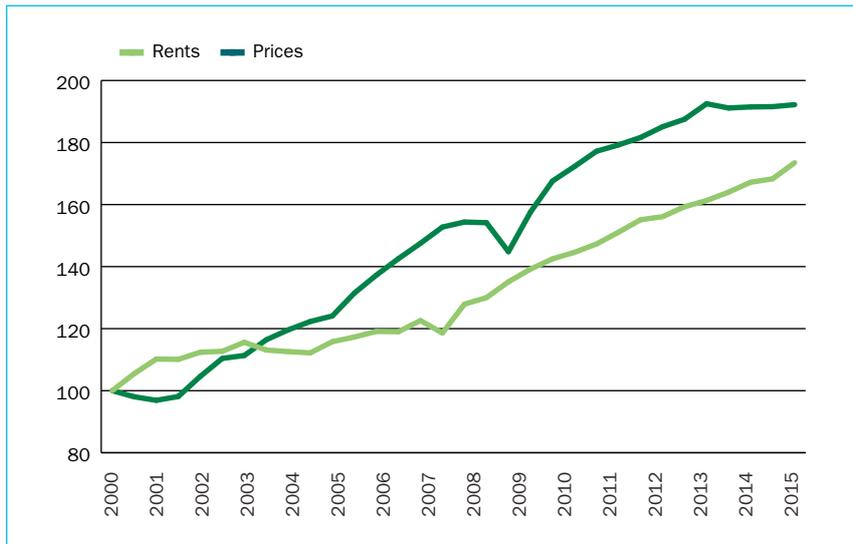
The residential market in 2016

According to the preliminary statistics of Statistics Finland, prices for residential dwellings in 2015 decreased by some 0.6% in the whole country on average. In the Helsinki metropolitan area, prices increased by 0.4%. The development of housing prices has been flat for the past two years due to the sluggish demand for owner-occupied housing.

According to Pellervo Economic Research PTT, housing prices will increase by 0.2% in the whole country on average in 2016. Regional differences will, however, continue to be significant. In the Helsinki metropolitan area, prices are forecasted to increase slightly, whereas in the rest of the country, the price development is expected to be negative.

Demand for rental housing remains strong, especially for small apartments in the major cities. The demand is strengthened by continuing urbanisation and decrease in average household size. Housing for an increasing number of asylum seekers will also increase demand for rental dwellings in main cities in the coming years.

Residential price and rent indexes, Helsinki metropolitan area



Source: KTI and Statistics Finland

In the past five years, residential rents in the Helsinki metropolitan area have increased by some 3-4% per annum. In other main cities, rents have increased slightly less, by some 2-3.5% annually. The strong demand for small apartments in particular drives rental growth in major cities.

Increase in rents currently shows some signs of slowing down. According to the KTI forecasts, rents in main cities will increase by some 1.5-2.5% per annum in 2016 and 2017. Rental growth is restricted by both challenging economic conditions and increasing supply. Strongest demand is currently targeted at locations with good public transport connections as well as at newly developed apartments.

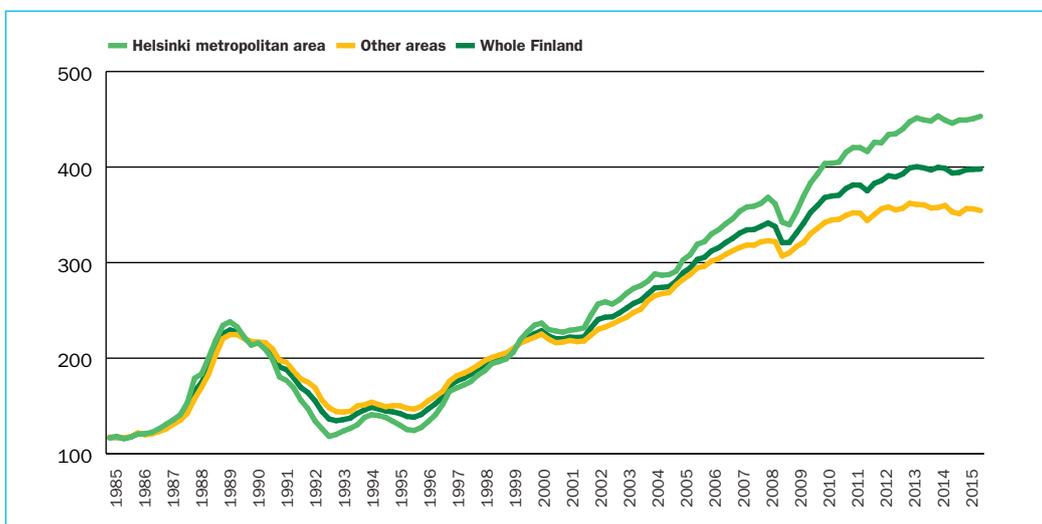
With the increasing supply, turnover of tenants has increased in newly developed residential areas in particular. Occupancy ratios of residential portfolios remain strong, at some 95-97%

on average, but have decreased slightly during the past year, due to increasing supply.

"Residential properties' share of the total investment market has increased markedly"

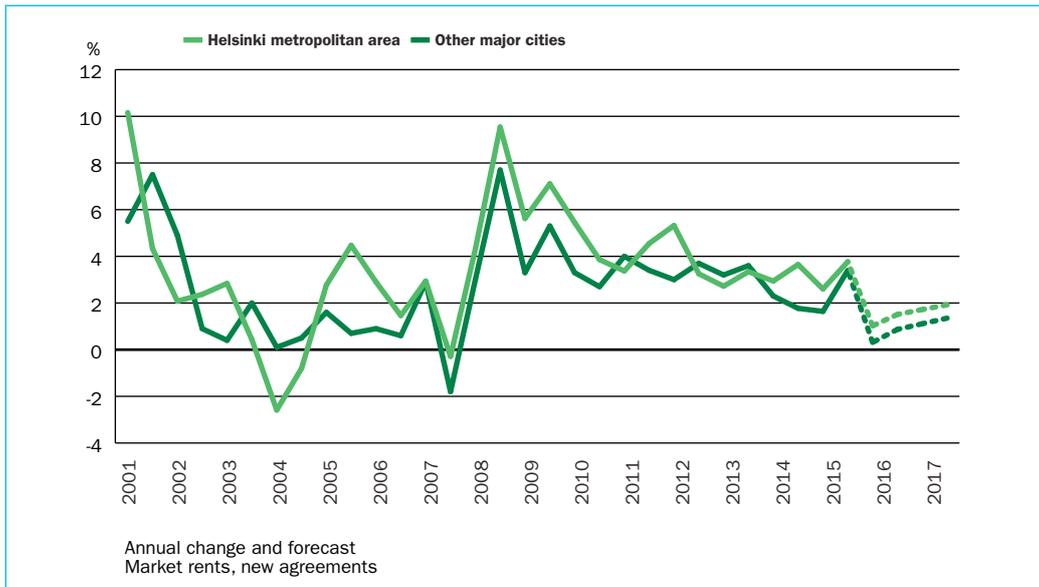
Residential properties' investment performance has remained strong, which is the main driver for the increase in the sector's proportion in the investment market. In 2015, residential properties' share of the total index database increased to 31%, which made it the biggest sector in the Index. Residential has been the best performing sector in the KTI Index every year since 2008, and it continued to

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



Source: Statistics Finland

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



Source: KTI

perform well in 2015. Capital growth has remained positive throughout the years. In 2015, total return on residential properties amounted to 8.9% (8.2% in 2014), consisting of a capital growth of 3.4%, and net income of 5.4%. Capital growth was supported by both decreasing yields and increasing rental values.

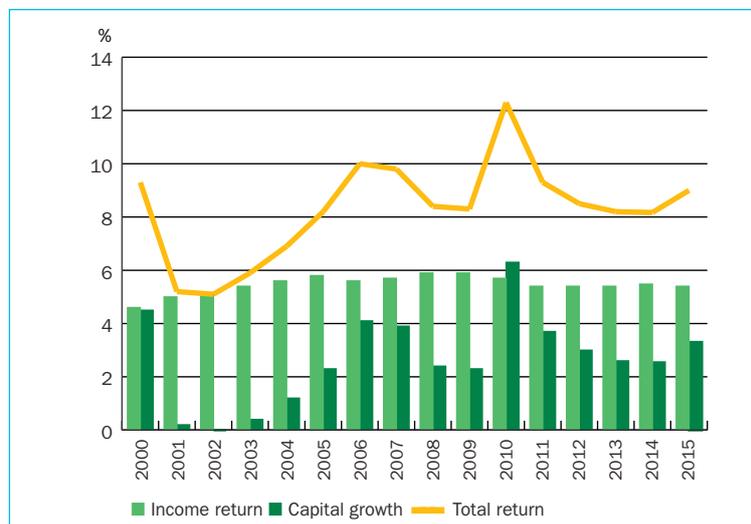
4.4 Public use properties

Stock

Properties used for the supply of different kinds of public services have increased their attractiveness in the investment market in recent years. Investor interest was first mainly targeted at healthcare properties, but during the past years, other kinds of public properties, for instance, educational buildings have also increased their attractiveness in the market.

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

Total return on residential property investments, 2000-2015



Source: KTI Index

"Public use properties' stable cash flows attract investors"

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

According to Statistics Finland, the total stock of healthcare facilities amounted to some 12.1 million sqm at the end of 2014. According to the KTI estimates, the market value of the healthcare properties owned by professional investors was slightly above €1 billion at the end of 2015.

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

Players

The demand for healthcare and other social sector properties is increasing 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.

Players in the healthcare property investment sector include institutional investors, domestic property funds and some specialised foreign investors. Pension funds' investments in healthcare sector have typically been targeted mainly at assisted living facilities for elderly people. The first fund in the healthcare property sector, EPI Healthcare I, managed by Northern Horizon Capital, was founded in 2007. The manager exited the fund by selling the properties to another specialised fund, eQ Hoivakiinteistö, in early 2016 for the price of €155 million. Northern Horizon Capital launched another healthcare fund in spring 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 Hoivakiinteistö and managed by eQ Bank. The fund has attracted a lot of private investors' capital. Through the recent acquisition the fund increased its property portfolio to 123 assets with a total value of €430 million. Another special investment fund investing in healthcare properties is managed by Titanium Rahastoyhtiö. The fund has invested in 35 healthcare properties across Finland. Most of the fund's assets are rather small, but in 2015, the fund acquired two larger medical centre / hospital properties in Turku.

"Increasing investment potential in public use properties"

Trevian Asset Management currently manages one healthcare fund, Trevian Care II, which was established in 2014.

The Swedish Hemsö is currently the largest foreign investor in the Finnish healthcare property sector. Hemsö entered the Finnish market in 2013 by acquiring one educational property in Turku. In 2014, the company made its first investments in healthcare properties. In 2015, Hemsö acquired another large school property in Pori.

Other foreign investors in the public use property sector include the Swedish Hemfosa, who made its first investments in Finland in late 2015 and early 2016, by acquiring several kinds of public use properties, as well as the German Deka, who acquired the new health and wellbeing centre, which is currently under construction in Kalasatama, Helsinki.

Market practices

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

The majority of healthcare 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 leases the premises further to a private operator.

Leases of healthcare properties are typically long, for instance 10-15 years. Lease agreements are most commonly net leases, where the tenant is responsible for 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 2016

Public use properties continued attracting new capital in 2015. Their transaction volume increased to some €500 million, of which healthcare properties accounted for about 50%.

The total transaction volume in 2015 consisted of several, mostly rather small transactions. eQ's acquisition of the €155 million portfolio in early 2016 was the largest Finnish healthcare property transaction ever. Hemfosa's two transactions amounted to €54 and €50 million, of which the latter only contributes to the 2016 volumes.

Strong investment demand has pressured investment yields. However, the yield always depends on the property in question and varies significantly between different locations, asset types and operators.

4.5 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, 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 many of their properties to investors. This emerging sector is attracting new investors including domestic institutions, property funds and foreign players. Of the total stock of industrial and warehouse properties, about 85% is estimated to be owner-occupied. Big owner-occupiers include, for instance, large industrial and retail corporations.

Logicor is currently the largest specialised investor in the logistics property sector. The company was founded as Certium Ltd in 2014, and upon its foundation, the company acquired a portfolio of more than 120 logistics and industrial properties for a purchase price of €917 million from Sponda, Varma and Sponda Funds I, II and III. During 2015, Sponda sold 100% and Varma 50% of their shares in the company to Blackstone's Logicor, which thus became the majority owner of the company. In early 2016, Certium changed its name to Logicor Oy. In late 2015, Logicor increased its investments in Finland through the acquisition of a €100 million logistics property portfolio from Sponda. The properties are located in the Vuosaari Harbour area in Helsinki.

"Logistics property sector
has recently attracted foreign
investors"

The Swedish listed company AB Sagax continued increasing its Finnish portfolio through several transactions in 2015. Funds managed by NREP also invest in different types of logistics and warehousing assets, including a chain of Pelican self-storage facilities, and they also made several new acquisitions in 2015. The Norwegian Ness, Risan & Partners is a newcomer in the Finnish logistics property investment market. The company bought a €120 million portfolio from Posti Group in spring 2015.

Logistics and industrial properties are typically represented also in institutional portfolios. Of the domestic fund managers, Pohjola also manages one fund investing mainly in logistics 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 the 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 2016

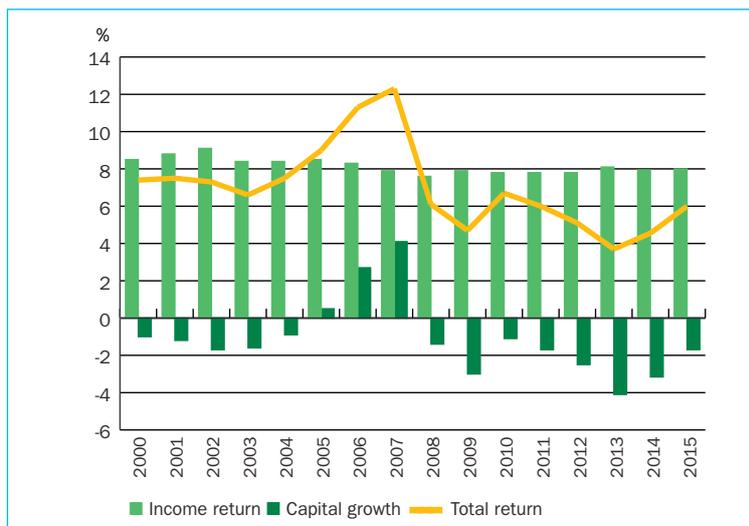
Vacancy rates for modern industrial and logistics properties have increased in recent years due to both new space supply and weak demand pressured by economic conditions. In the KTI rental database, occupancy rates for logistics and industrial premises have varied between 80 and 85% in recent years.

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 the Helsinki metropolitan area and surrounding municipalities stand at some €10-11 per sqm. In the airport area in Vantaa, the rents are clearly higher.

In 2015, the total transactions volume of logistics and industrial properties amounted to some €600 million. The biggest transactions were those carried out by Ness, Risan & Partners (€120 million) and Blackstone's Logicor (€100 million).

New development of logistics and industrial properties in the Helsinki metropolitan area is currently concentrated in the airport area, where Finnair and Finavia are developing a new cargo terminal and some supporting properties. In the vicinity, DB Schenker's 52,000 sqm logistics centre was completed in 2015.

Total return on industrial property investments, 2000-2015



Source: KTI Index

In Sipoo, north of Helsinki, S Group's 77,000 sqm first phase of the Freeway project is scheduled to be completed by summer 2016. In the Tampere region, there are some logistics and data centre projects underway.

The investment performance of the industrial / warehouse sector has been relatively poor in recent years. In 2015, the sector produced a total return of 6.2% (4.6% in 2014). Net income remained at a high level, at 8.0%. Capital growth remained negative.

4.6 Hotels

Stock

According to Statistics Finland, there are 626 hotels in Finland, comprising some 51,000 rooms.

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 hotel operator in Finland, with more than 50 hotels across the country. Restel, which operates hotels under the brands Cumulus, Rantasipi, Holiday Inn and Indigo, for instance, currently has 46 hotels in its chains. Finlandia Hotels and Scandic Hotels have 27 hotels each, followed by Best Western with 17 hotels. Kämp Collection Hotels is a growing hotel chain, which currently operates 7 luxury and design hotels in the city centre of Helsinki. The group will open its newest hotel St. George in summer 2017.

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.

The hotels market in 2016

According to Statistics Finland, the amount of nights spent in hotels remained stable in 2015 compared to the previous year. The biggest decrease was seen in the number of Russian tourists visiting Finland. Russians have remained, however, the biggest foreign visitor group in Finnish hotels. The decrease in the number of Russian tourists was compensated by the increase in the numbers of visitors from Germany, Japan, France, the UK, China and Switzerland.

The occupancy rate of hotel rooms has remained around 50% in the whole 2000s. There are, however, significant differences between regions: in the Uusimaa region, occupancy rate is above 60%, while in the northern and eastern parts of Finland, they remain close to 40%.

"Hotel stock is increasing in Helsinki"

In 2015, two new hotels – Indigo and Lilla Roberts – were opened in the Helsinki CBD, both of which were redeveloped from old office properties. Properties are owned by Finnish pension funds Ilmarinen and Elo, respectively. Two similar kinds of projects are currently underway and two more are just about to be started. In addition, there is a major hotel project underway in Jätkäsaari, Helsinki, where an over 400 room hotel and congress centre is being developed for Clarion. Another Clarion hotel is under construction at the Helsinki airport. Keva has invested in the project.

According to the KTI Index, hotel properties delivered a total return of 5.2% in 2015.

5 Property markets in different regions – outlook for 2016

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. The area is well-recognised among foreign investors, many of whom only invest in the capital region.

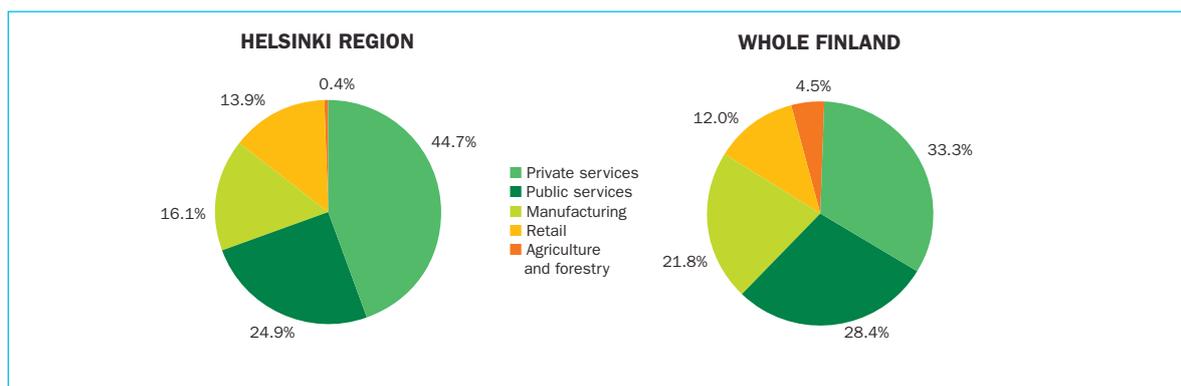
Of all the properties included in the KTI Index, around 68% are located in the Helsinki metropolitan area. The capital region's position is also reflected in the transactions market: in 2015, close to 55% of all transactions were made in the Helsinki metropolitan area.

"The Helsinki metropolitan area has a dominant position in the Finnish property market"

The second-tier markets – typically the regional growth centres of Tampere, Oulu, Turku, Jyväskylä, Kuopio and Lahti – are traditionally popular among domestic institutions. In these cities, there are some local players who operate only in these market areas. Many 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 selected sectors such as residential or retail, which are driven by consumer markets.

The structure of the economy Percentage of jobs, 2014



5.1 The Helsinki metropolitan area

The Helsinki metropolitan area, consisting of the cities of Helsinki, Espoo, Vantaa and Kauniainen, has a population of 1.1 million people. 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.

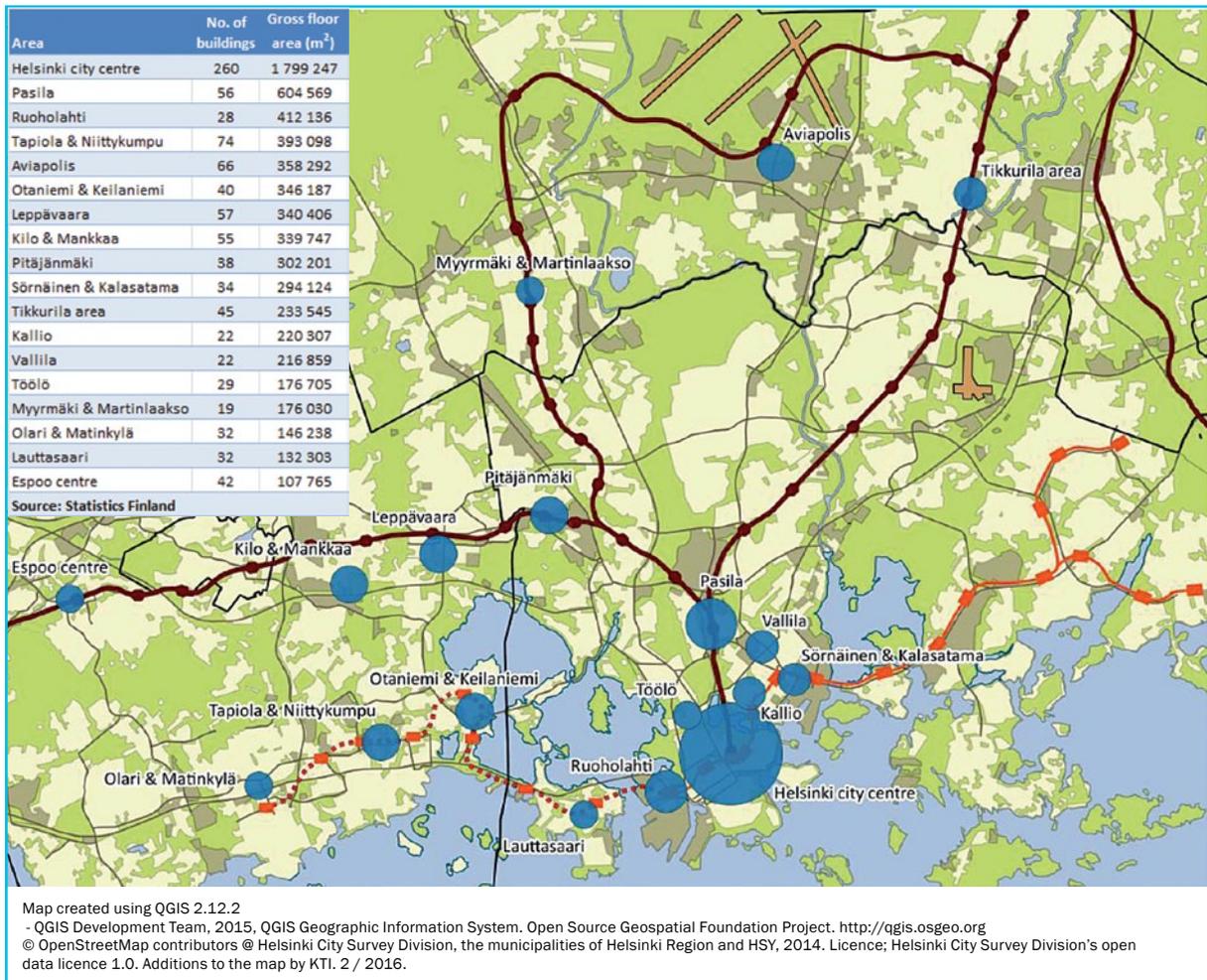
The entire Helsinki region consists of 14 municipalities. The region's land area accounts for 1.2% of the area of the entire country, but it accommodates 26% of the Finnish population, accounts for about 31% of all jobs and delivers some 36% of the Finnish GDP. In many respects, the Helsinki region has a dominant position in Finland, which means that its importance is also significant from the property market perspective.

Population: Helsinki: 621,000
Espoo: 270,000
Vantaa: 215,000
Helsinki region: 1,430,700

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

In the Helsinki region, the proportion of jobs in the private service 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 (22%). Of the industrial occupations in the region, nearly 40% are in construction. 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. However, the proportion of jobs in the public sector is lower - 25% - compared to 28% in the entire country.

Main office areas in the Helsinki metropolitan area



"The Helsinki metropolitan area continues to grow, which supports construction and service sectors"

The amount of production and number of jobs remained stable in the Helsinki region in 2015. However, there were significant differences between business sectors. In the information and media sectors as well as in professional and consumer services both production and number of jobs continued increasing. The construction sector's turnover also increased markedly. The growth remained negative in wholesale and retail trades and industrial occupations.

The continuing increase of population maintains the level of construction. According to the Confederation of the Finnish Construction Industries RT, about half of the entire country's residential construction is concentrated in the Helsinki region. RT forecasts construction volumes to increase by 2.5% in 2016, with the biggest growth expected to be in the Helsinki region.

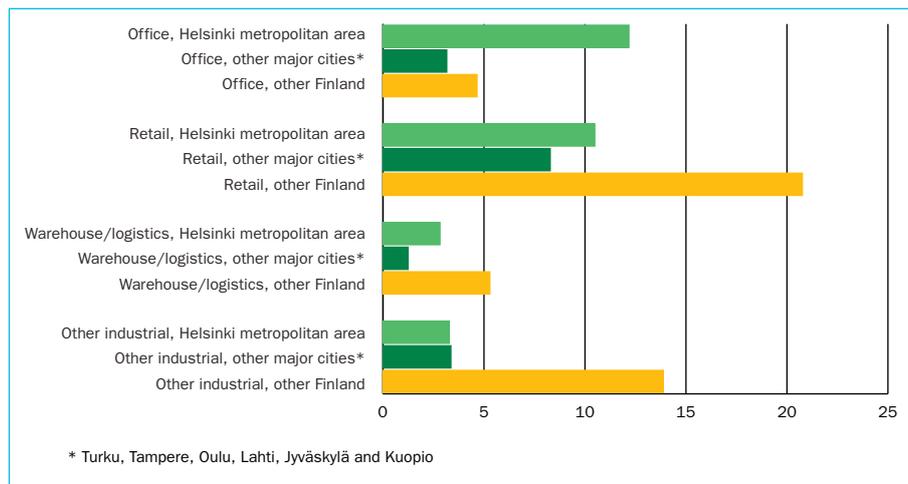
The growth of the Helsinki metropolitan area is currently being supported by major investments in public transportation network. The Ring Rail Road, which connects the Helsinki airport and several significant residential areas

with the city centre, was completed in 2015. The Western Metro line is now being extended to Matinkylä in Espoo, where development work is scheduled to be completed in summer 2016, after which the construction of the further western extension will be started. In addition to these developments, there are plans for a so called Rail Joker, a fast tram connection from Keilaniemi in Espoo to Itäkeskus in Helsinki, which would go through the northern parts of Helsinki. Furthermore, the so called Pisara rail connection is being planned between Central Station, Töölö, Pasila and Hakaniemi, which would ease public transportation in the inner city. The two latter projects are dependent on state funding, but especially the Joker Rail Line is currently likely to be supported by the current government.

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

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

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



Source: KTI

Kluuvi). New major shopping centres are currently being developed in Kalasatama (REDI) and Pasila (Tripla).

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.

5.1.1 Helsinki

The proposal for a new Helsinki city master plan is based on a prediction that there will be 865,000 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.

In the new master plan, about one third of new development is planned to take place in the inner city, which will be expanded through the new city boulevards. Another third would be enabled through increased building density in the vicinity of the most important rail connection hubs. The rest would take place by zoning new areas for construction, for instance in the Malmi airport area.

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

The Helsinki Central Business District

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

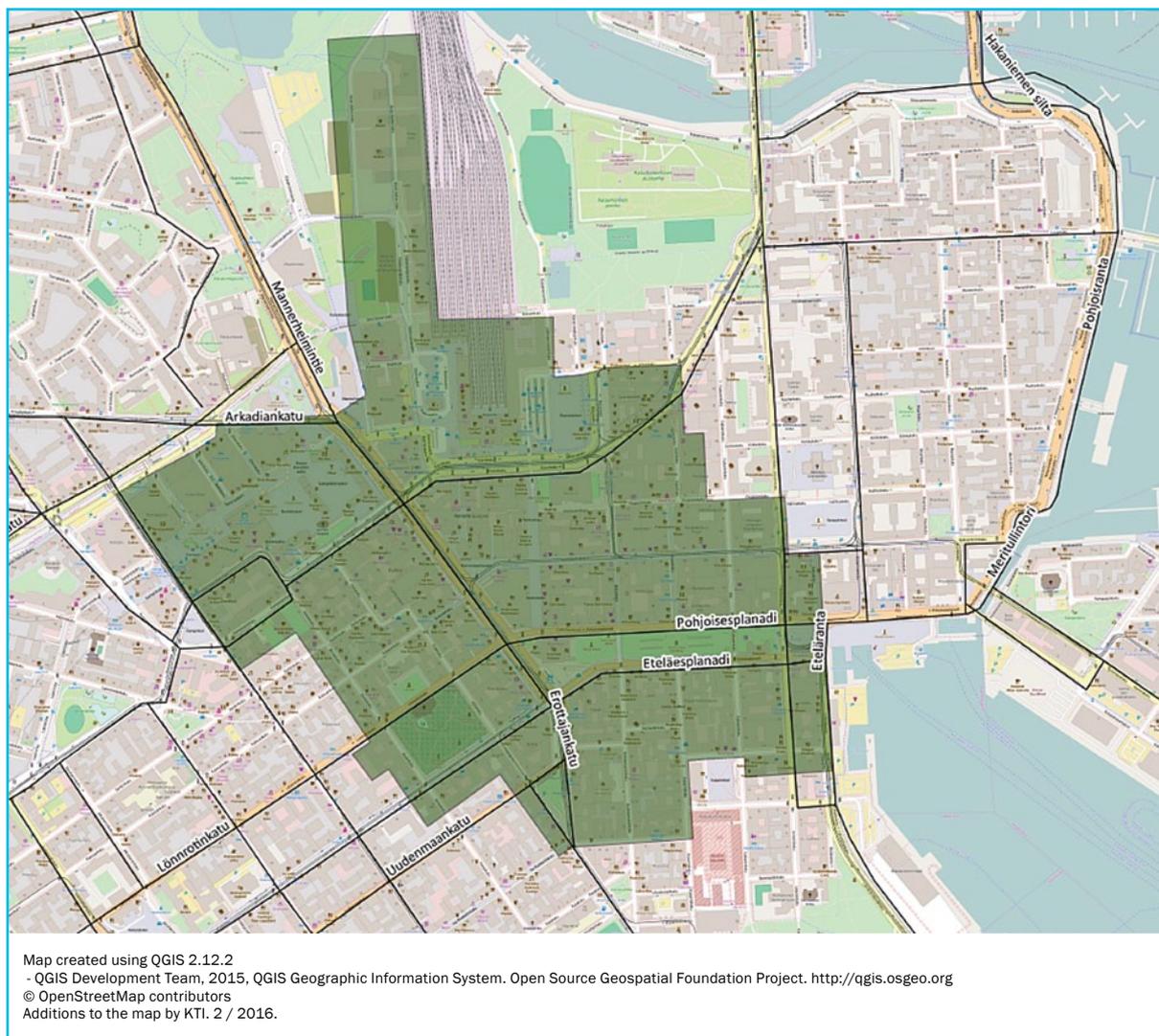
Office users in the city centre are mostly companies offering business-to-business services – business consultancies, law firms, investment banks, etc – together with some company headquarters and ministries' offices. The majority of the office stock in the CBD was built in the late 1800s and early 1900s, 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. In total, the area accommodates some 40,000 sqm of modern office space. The Töölönlahti area will also accommodate the new central library, the construction of which was started in 2015 and will be completed in 2018.

In addition to the new construction in the Töölönlahti area, the space supply in the Helsinki CBD has increased and improved through active redevelopment. Occupiers moving from old premises to many of the new buildings in the Töölönlahti area freed their old premises, which were also located in the CBD, to be redeveloped and mostly rented to various kinds of professional service firms.

"Several office buildings have been converted into hotel or residential use in the CBD"

Helsinki CBD (KTI Rental index area)



Several buildings in the CBD have also been converted to either hotel or residential use. In 2015, two new hotels converted from old office buildings – Lilla Roberts and Indigo – were opened. The F6 hotel project is also currently underway and St. George is just about to be started in Kamppi. Also one old cinema building is planned to be redeveloped into hotel use in Kluuvi in the CBD. Several office buildings that are now converted into residential use were, in fact, originally built as residential, but were later developed as offices and are now being restored for their original use.

In Kasarmikatu, two old office buildings formerly used by the City of Helsinki are now planned to be demolished, and new office properties will be built on the plot.

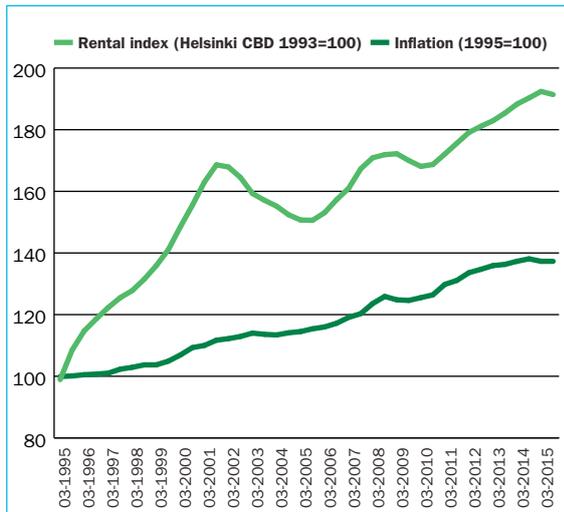
The combination of increased space supply and tight economic conditions has recently increased the amount of vacant space also in the CBD. In the KTI rental database, the occupancy rate of the CBD offices stood at some 85% in late 2015.

"The Helsinki CBD has proven its resilience in challenging market conditions"

KTI's rental index for the Helsinki CBD offices has shown a stable increase of 1-2% in recent years. In 2015, however, rents stopped increasing, and the Index showed an annual increase of 0.6%. The median market rent in new rental agreements remained at €27 per sqm, but the top rents decreased and were below €30. The most expensive premises in the CBD can be found in the Kluuvi area, in Aleksanterinkatu and the Esplanades as well as in the streets between them.

In the RAKLI-KTI Property Barometer, the outlook for office rents in the CBD turned slightly more positive during 2015. Also the KTI forecast expects more positive development for office rents in the central areas of Helsinki than for other areas in the Helsinki metropolitan 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 in 2015. The average stood at an all-time-low, at 5%, in late 2015. Yields for the very best properties are clearly lower than this.

In 2015, the biggest office transaction was carried out early in the year by Union Investment, who bought one of the new Töölönlahti office buildings from Etera. Other significant office acquisitions were made by, for instance, OP-Rental Yield fund and Schrodgers, who both bought buildings that need redevelopment in order to attract tenants. CapMan's Nordic fund bought a major office building to be redeveloped into hotel use, and Lapis Rakennus acquired one building from the state's Senate Properties to be redeveloped into residential use.

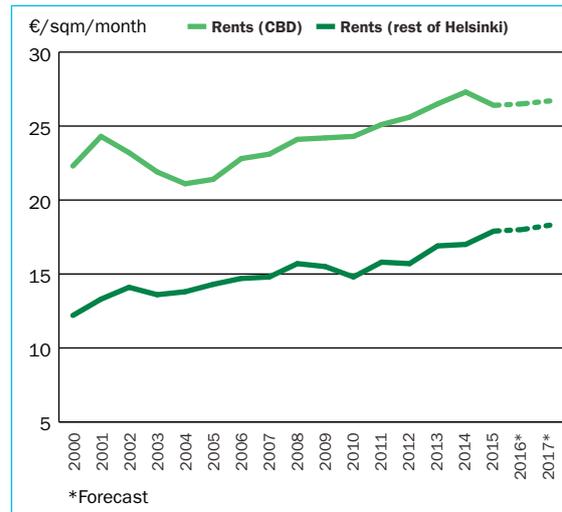
"Prime office yields in the Helsinki CBD at an all-time-low"

Healthy rental growth and decreasing yields have maintained the increase in market values in Helsinki CBD offices in recent years, even though in most other areas, capital growth has been clearly negative. In the KTI Index, the capital growth of Helsinki CBD offices accelerated to 6.7% in 2015, supported by both rental growth and yield compression.

"Capital growth in the CBD supported by both rental growth and yield compression"

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

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



Source: KTI

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.

The amount of vacant retail space remains low in the CBD, although it has increased slightly in recent years. In the KTI rental database, the upper quartile of retail rents stands currently at some €130 per sqm per month for small premises. In the RAKLI-KTI Property Barometer, the outlook for the CBD's retail rents turned slightly more positive in late 2015, and the average rent stood at €110 per sqm.

"The Helsinki CBD retailer base is evolving"

The tenant base of retail premises in the Helsinki CBD has changed markedly during the past couple of years. On the one hand, some international luxury brands have entered the Finnish market by opening stores in the most expensive locations. On the other hand, shopping centres in the CBD have also attracted some users of large premises recently, and, for example, XXL, Giganti, K-rauta and Plantagen have opened stores in very central locations. One major change is also the development of the traditional Stockmann department store, where shop-in-shop premises have been recently rented to, for instance, the toy store Hamley's, electronics retailer Expert and pet shop Musti and Mirri.

Ruoholahti – Salmisaari

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

Office rents in Ruoholahti currently stand at some €23-24 per sqm per month on average. A couple of years ago, the amount of vacant space increased markedly in the area, due

to, for instance, the closing of the major Nokia Research Center. Within the past year, however, the area has attracted new tenants and major lettings have been published by, for instance pension insurance company Varma, who is a major investor in the area. For instance, Handelsbanken, The Federation of Finnish Financial Services and Outokumpu will move to Ruoholahti in 2016.

"Major lettings increase the office occupancy rate in Ruoholahti"

Investors in the area include domestic institutions and property companies as well as some international funds. In 2015, the only major transactions in the area were two office buildings included in the Antilooppi-Ilmarinen portfolio transaction. Both Sponda and Technopolis have some planned office development projects in the Salmisaari area, but new projects are not likely to be started before the space demand picks up.

Retail space in Ruoholahti is concentrated in the Ruoholahti shopping centre, owned by Sponda and rented and operated by Kesko Group.

Next to Ruoholahti is the growing Jätkäsaari area, which was freed for development after the harbour moved its operations to Vuosaari. The West Harbour serving passenger ferries to Tallinn and St Petersburg is still located in the area, and a new passenger terminal is currently being built in the area. The construction of a 16-store Clarion hotel and congress centre is also underway and planned to be completed in late 2016. SRV is planning the Wood City block in the area, consisting of one office, two residential buildings and one hotel building. Construction is planned to be started in 2016. Rental residential development is currently active

in Jätkäsaari. The area is planned to accommodate some 17,000 inhabitants by 2030.

Skanska is currently planning the development of the Telakkaranta land area, next to Jätkäsaari. In the area, residential, commercial and hotel properties are planned to be developed.

Pasila – Vallila – Kalasatama

Other traditional office areas situated somewhat out of the city centre include Pasila, Sörnäinen and Vallila. These areas are characterised by a multifaceted office supply. There are significant differences in rental levels and occupancy rates between the new and old property stock in these areas. Adjacent to Sörnäinen, there is the developing Kalasatama area, where land was released for development when the harbour moved its operations to Vuosaari.

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.

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 50,000 jobs and 20,000 residents, compared to current figures of 25,000 and 8,600 respectively.

Pasila is currently under major redevelopment. In the Central Pasila area, in the surroundings of the current railway station, the three-block Tripla project was started with land construction works in 2015. The 183,000 sqm complex will be built in several phases by 2022, and will include a



shopping centre, parking facilities, public transportation hub, residential buildings, hotels and offices. YIT is the main developer in the project, and in late 2015, domestic investors Etera, Fennia and Onvest joined as co-investors in the development company.

"The Pasila area is under major 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. Sponda, together with the YLE Pension Fund, is a major developer in the area. In 2015, the first 15,000 sqm phase of Sponda's Ilmalanrinne project was completed. Consulting engineering group Sweco is the main tenant in the building. In early 2016, also Hartela published its plans to develop two office properties, comprising some 22,000 sqm, in the area.

Pasila's position as an important rail hub was enhanced further through the direct train connection to the airport, which was completed in July 2015. The City is also planning a so called City Rail Loop project (Pisararata), 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, the Helsinki city centre, Hakaniemi and back to Pasila.

"Office demand in Pasila increased in 2015"

Office vacancy rate in Pasila decreased in 2015. Some major lettings were completed, and, for instance, Danske Bank and VR Group published their plans to move to Pasila during 2017. Rental levels vary significantly between older and modern stock in the area. In KTI's rental database, the average rent in new agreements stood at some €18.50 per sqm in 2015.

Vallila is a traditional office and light industrial area next to Pasila, currently accommodating, for example, banks and telecommunications companies. OP Group's 58,000 sqm head office campus was completed in 2015, and accommodates about 3,000 employees. Next to Vallila is Sörnäinen, a traditional industrial and harbour area, which currently accommodates many refurbished office buildings. Rents vary markedly between older and modern office stock in Vallila and Sörnäinen.

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

"The construction of the 60,000 sqm shopping centre REDI is underway"

Construction work in Kalasatama started with residential projects, and the first residents already live in the area. Residential stock comprises both rental and owner-occupied dwellings.

In 2015, SRV started construction of the REDI centre, which will comprise six residential towers, one hotel and one office tower as well as a 60,000 sqm shopping centre. In addition to SRV, investors in the project include pension fund Ilmarinen, OP Group's funds and LocalTapiola's insurance and life funds. The shopping centre is planned to be opened in 2018, when the first residential towers will also be completed. The whole centre is scheduled to be completed by 2022.

The City of Helsinki's 20,000 sqm health and well-being centre is currently being constructed in Kalasatama. The centre was sold to Deka Immobilien in summer 2015. New premises for the DIAK University of Applied Sciences are also just about to be completed in the area. Several developers and investors are planning office projects in the Kalasatama area, although none are currently under construction.

Ruskeasuo

Next to Pasila is the developing Ruskeasuo office area with mostly modern space supply. The area currently accommodates the first two phases of Skanska's Manskun Rasti project, and the two next phases still wait to be started. In NCC's Aitio Business Park, the second phase is currently under construction. Another new office building, rented to the National Institute for Health and Welfare was completed in 2015. Also, Kesko plans to start the construction of a new head office building in the area. The building will also accommodate a grocery store.

North of eastern Pasila is the traditional residential area Käpylä. The surroundings of the Käpylä railway station accommodate a relatively modern office stock where a couple of company headquarters are located. eQ's fund acquired one office building, where residential company SATO is the main tenant, in late 2015.

Pitäjänmäki

Pitäjänmäki, situated seven kilometres north of the Helsinki city centre, is an old industrial area that was converted into mainly office use in the 1990–2000s, comprising both multi-tenant office buildings and some head office type properties as well as some modern business parks. The investor base in the area is varied and comprises institutions, property companies and funds, foreign investors and corporations.

The amount of vacant office space has remained high in Pitäjänmäki for several years. In KTI's rental database, the amount of vacant office space increased markedly within the past year, and occupancy rate stood at only some 73% in late 2015. Due to low demand, investors are looking for opportunities for changes of use.



Photo: SRV

"Pitäjänmäki continues suffering from high office vacancy rate"

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.

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. Due to weak space demand, investors have been cautious with the area in recent years. In 2015, NREP acquired one office property in Pitäjänmäki, and another property changed hands as part of the Antilooppi portfolio.

Herttoniemi – Itäkeskus – Vuosaari

Herttoniemi is an area five kilometres east of the CBD, adjacent to both the eastern radial route and the metro line. Herttoniemi is an old warehousing area that has gradually transformed into a more diversified area with office and retail supply. Office vacancy rate has remained high for several years, although the total stock of offices is rather small in the area. YIT and Hartela are about to start the construction of the Hertsi centre by the metro station, which will be connected with the existing Megahertsi centre. The centre will comprise some 20,000 sqm of retail space, and accommodate a Prisma hypermarket. Three residential towers will also be built above the centre.

Further east is the Itäkeskus area. The area's location at the junction of Ring Road I and the eastern radial route, as well as by the eastern metro line, supports its development as an attractive area for retail and living. The Itis shopping centre is one of the largest shopping centres in northern Europe with a gross leasable area of 115,000 square metres.

Kesko is currently building a 20,000 sqm shopping centre in Itäkeskus, where a new Citymarket will be opened in 2017. The second phase is planned to accommodate some 36,000 sqm of retail space and 8,000 sqm of residential. 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. In 2015, Sponda sold a €100 million logistics portfolio in the area to Blackstone's Logicor. 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

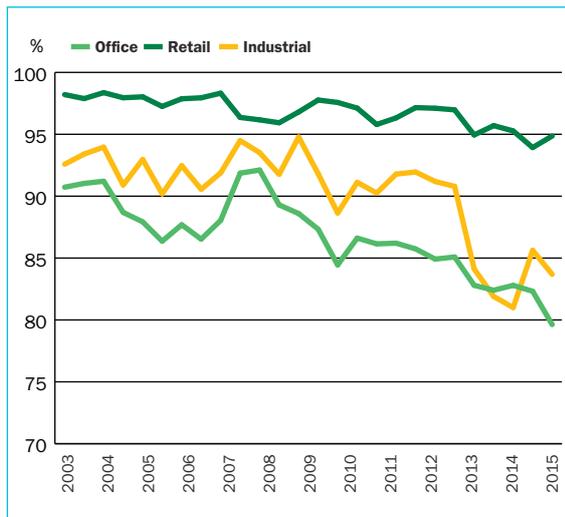
Espoo, Finland's second biggest city, has property stock scattered within five regional centres. The city's commercial property stock is multifaceted, which can also be seen in the divergent development of rental levels and vacancy rates in different areas and properties.

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 2015, however, only one new office building was completed in the Leppävaara area, and there are currently no ongoing office development projects.

"Office vacancy rate remains high in Espoo"

In the KTI rental database, only some 74% of Espoo's office premises owned by large investors were rented in late 2015. Vacant office premises can be found in various areas in Espoo, including, for instance, Kilo-Mankkaa, Niittykumpu-Olari, Keilaniemi and Leppävaara areas.

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



Source: KTI Rental database

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 – Matinkylä

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

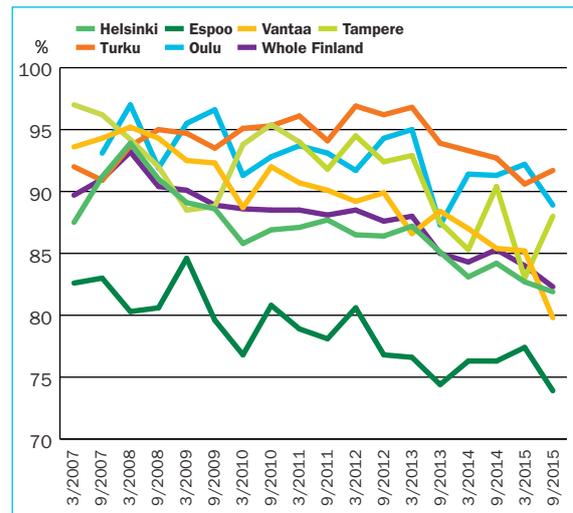
"New metro line boosts retail and residential construction in Espoo"

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. In recent years, new agreements have been made slightly below the prevailing rental levels.

Keilaniemi has suffered from relatively high vacancies in modern office buildings in recent years, and, in 2015, the amount of vacant space increased further. In KTI's rental database, the occupancy rate for Keilaniemi offices only stood at around 73% at the end of 2015. There has been some major lettings in Keilaniemi, but many of these have been driven by increased space efficiency, and they thus don't have any impact on the vacancy rate.

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

Office occupancy rates in main cities



Source: KTI Rental database

conditions improve significantly. There were no major transactions in the area in 2015.

The City of Espoo has decided to cover the Ring Road I between Keilaniemi and Tapiola, in order to both increase the attractiveness of the area and improve the opportunities for residential development. The work is just about to start in Keilaniemi. The second phase will extend the tunnels between Otaniemi and Tapiola, but it is only scheduled to be started after a couple of years.

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 new premises. A new building for the Aalto School of Arts, Design and Architecture with a gross area of 33,000 sqm will also include some retail space. The €100 million project is scheduled to be completed in 2018. The Otaniemi area also accommodates several research institutes as well as business parks targeted at high-tech companies, including Technopolis's Innopoli campus.

"The traditional 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 and existing and new property stock. The first phase of the Ainoa shopping centre was completed in 2013. The second phase comprising some 20,000 of leasable space is under construction and scheduled to be completed in 2017, after which the construction of the third phase is planned to be started. The centre will accommodate a Stockmann department store, whose old building will be demolished. Tapiola area also accommodates a diversified office stock, a large part of which has been redeveloped, while some will be demolished and redeveloped for some alternative use. In 2015, Fennica Mutual Property Fund acquired one

property in the area. In the Tapiola area, a lot of residential development is also currently underway.

The next two stations after Tapiola are Urheilupuisto and Niittykumpu. In the Urheilupuisto station, a smallish retail centre is being planned, as well as some office projects in the vicinity of the station. In the Niittykumpu station, the construction of a 7,000 sqm retail building is currently underway and scheduled to be completed in late 2016. OP-Rental Yield fund is the investor in the project.

Matinkylä, the final stop of the current metro line project, is one of the most significant retail centres in Espoo, as well as a recognised 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. After the redevelopment – scheduled for completion in two phases in 2016 and 2017 – the shopping centre will comprise almost 100,000 sqm of lettable space. Citycon currently owns the entire centre. Also in Matinkylä, extensive residential development is underway.

"Iso Omena will become one of the biggest shopping centres in Finland"

West of Matinkylä is the traditional retail and light manufacturing area of Suomenoja. The area currently accommodates mainly big box retail properties as well as shopping centres Merituuli and Liila. Julius Tallberg-Kiinteistöt completed an 8,200 sqm retail property in the area in 2015, which is mainly rented to the XXL sports and outdoor shop.

Leppävaara

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

"Leppävaara attracts retail, office and residential investments"

Leppävaara 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 was completed in late 2015 and sold to OP-Rental Yield Fund. During 2015, two earlier phases of Alberga were sold from Union Investment to Amundi as part of a large European office portfolio transaction. Another major transaction in the area was the sale of Sola Business Valley by Veritas. The €70 million office property was acquired by RREEF Investment GmbH. Additional phases are being planned for most business parks in the area. Leppävaara also attracts residential development.

Prime rents for offices in Leppävaara stand at slightly above €20 per sqm, but due to the diversified stock, there are significant differences in rental levels. The amount of vacant space has increased steadily in Leppävaara during the past years, and, according to Catella, vacancy rate had increased to 24% at the end of 2015.

Next to Leppävaara is the Karaportti area, where Nokia has concentrated its head office functions. Nokia has thus freed some space it previously used in Leppävaara, which also contributed to the increase of vacancy rate in the area. Some 23,000 sqm of these Nokia premises in Karaportti were also included in the Ilmarinen-Antilooppi transaction.

In the Perkkää area in Leppävaara, various kinds of property developments have been planned during the past years. The area has been planned to accommodate extensive shopping and leisure properties, but all these have been cancelled or postponed. The current plan includes some office, hotel and leisure properties, but this still remains unconfirmed. There are also significant plans for residential development in the area.

Espoo centre

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

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

In the Lommila area, situated next to Espoo centre at the junction of the Turku motorway and Ring Road III, a major 110,000 sqm shopping and retail centre has been planned for several years. However, in 2015, the plan was rejected due to some mistakes in formal procedures. Therefore, the city had to reconfirm the plan in late 2015, which has – again – postponed the development of the area markedly.



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, which started operation in 2015, has boosted property development around the station areas, including abundant residential projects and several retail and service properties.

Aviapolis

The Aviapolis area around the Helsinki-Vantaa Airport has developed rapidly during the past few years. The main players in the area include the City of Vantaa, Finavia and its daughter company LAK – Lentoasemakiinteistöt, all major property developers and several property companies. There are currently some 18,000 inhabitants in the area and further plans for significant growth. The area accommodates about 35,000 jobs, and further growth of some additional 15,000 jobs is estimated.

"New Ring Rail Line was
opened in 2015"

The new Ring Rail Line has stations at the airport as well as in Aviapolis, thus linking the area with the city centre and main railway connections. This boosts both residential and commercial property development in the area.

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 also an important logistics hub with rather modern space supply, which is accommodated by, for instance DHL, DB Schenker and Posti Logistics. Logistics development has been active in the area in recent years, and in 2015, some 45,000 sqm of new logistics and manufacturing premises were completed in the area. The biggest project was the completion of DB Schenker's new 40,000 sqm logistics and office property. Finnair is currently developing a new cargo terminal building in the airport area. Several new logistics properties are being planned in the area.

Modern office space supply is abundant in the area, including the World Trade Center in the airport area, the Technopolis Helsinki-Vantaa Campus and several business park complexes by Ring Road III. Technopolis's campus was extended in 2015 by a completion of a 5,300 sqm new phase, and Skanska CDF is about to complete the construction of the 9,000 sqm Aviabulevardi property next to the Aviapolis Station. The property has attracted several tenants. There are numerous office projects in the planning phase, but they are waiting for space demand to pick up. The area has suffered from relatively high vacancy rates in recent years, but in 2015, the amount of vacant space decreased slightly. Office vacancy rate still stands, however, above 17%, according to Catella.

"Office demand has picked
up in the Aviapolis area, but
vacancy rate remains high"

In the new Aviapolis Station area, the construction of the new 258-room Clarion hotel was started in 2015.

The 85,000 sqm 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. The centre's owner Varma is planning to start the construction of a new 200-room hotel in the centre.

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

In late 2015, OP-Rental Yield fund increased its investments in the Aviapolis area by acquiring the Avia Line III property from YIT. Also Fennica Mutual Fund and a joint venture of Fennia Life and Pharmacies' pension fund acquired retail properties in the area.

Tikkurila

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

The City of Vantaa is developing its infrastructure, and several property investors are planning or carrying out new investments in the area. The first phase of office and retail centre Dixi was completed in 2015 in the station area, and the construction of the second phase is due for completion in late 2016. Prime office rents stand clearly above €20 per sqm, but in the older office stock, rents are significantly lower. 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.

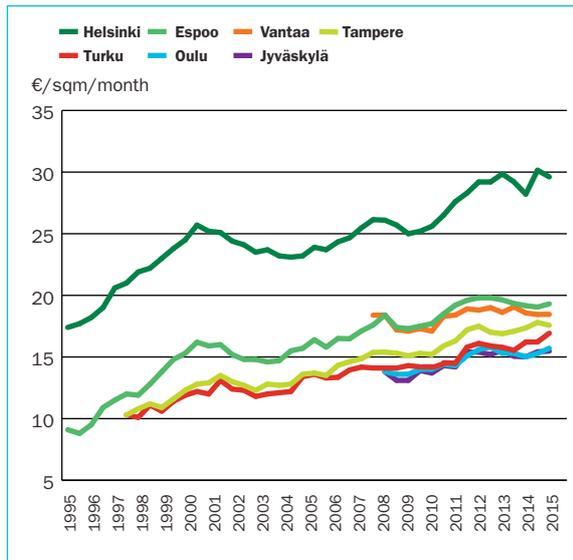
"Kivistö retail centre's
construction planned to be
started in 2016"

The biggest individual project planned in the area is an 110,000 sqm shopping centre close to the new Kivistö station, which is a joint project between Skanska and NCC. The construction of the first 55,000 sqm phase of the project is estimated to be started in 2016, and completed in 2018.

Myyrmäki

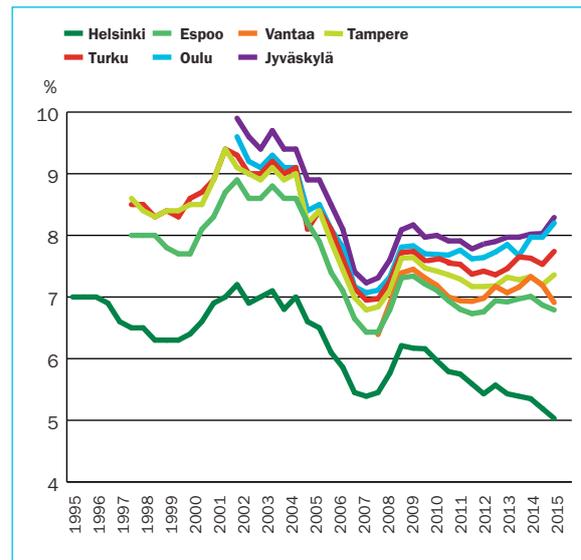
Myyrmäki is a regional centre in western Vantaa by the Ring Rail Line. The area currently accommodates some 15,000 inhabitants, and residential construction continues to be active. In the Myyrmäki centre, next to the station, the 40,000 sqm Myyrmanni shopping centre is located. Citycon's other shopping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

Prime office rents in major Finnish cities



Source: RAKLI-KTI Property Barometer

Prime office yields in major Finnish cities



Source: RAKLI-KTI Property Barometer

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

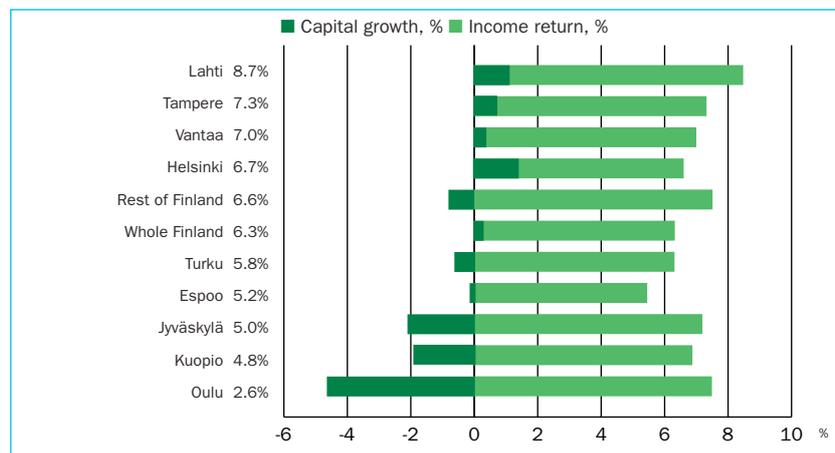
Population: Tampere: 225,000
Tampere region in total: 360,000

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. The tunnel is scheduled to be completed in 2017. At the railway station, a modern public transportation hub is being planned. A new tramway is also being planned, and the City council is expected to do the final decision about construction in late 2016; operations are 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.

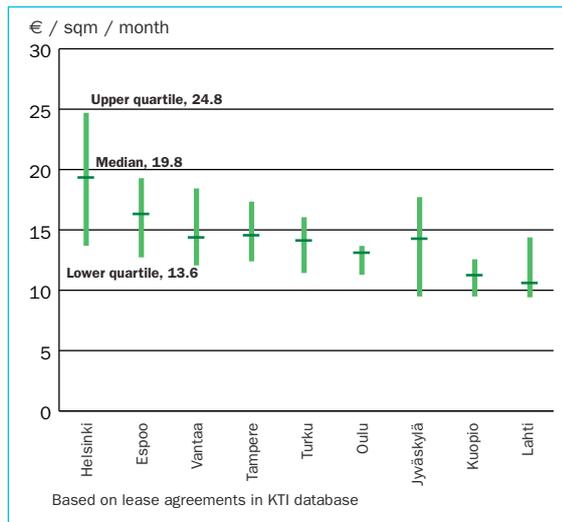
"Transportation infrastructure under major development in Tampere"

Total returns in Finnish cities 2015



Source: KTI Index

Prevailing office rents in major Finnish cities, autumn 2015



Source: KTI

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.

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

The amount of vacant office space has recently increased due to both new supply as well as major reorganisations of Nokia, and the vacancy rate has been around 10%. 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. OP develops a modern hospital and office property in the Tampella area in the city centre. The University hospital is currently being extended, and University Properties of Finland are building an educational property in its vicinity.

The most expensive retail space in Tampere is situated along the main street, Hämeenkatu, and in the Koskikeskus shopping centre next to Hämeenkatu. In the Ratina area, next to Koskikeskus, Sponda is currently developing a 50,000 sqm shopping centre, which is due for completion in 2018.

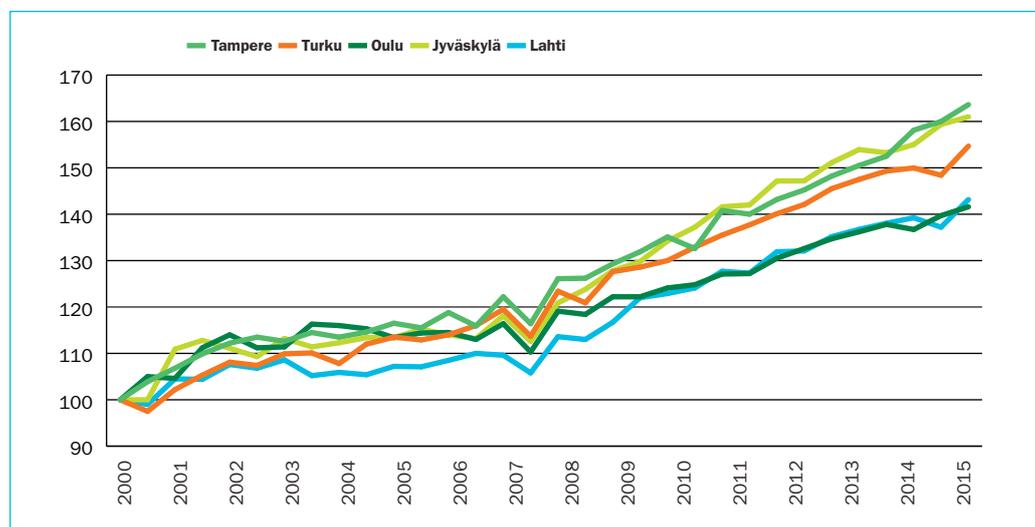
"A major shopping centre is being developed in the centre of Tampere"

Residential development activity is also high in Tampere, which is one of the fastest growing city regions in Finland. There are numerous development projects ongoing, partly boosted by the developing transportation infrastructure. Domestic funds and property companies are investors in the residential projects in Tampere.

"A major multi-use arena project is being planned by the Tampere railway station"

There are plans to build a major multi-use arena in the vicinity of the Tampere railway station. The project has been planned for several years now, but the original developer NCC withdrew from the project in 2015. In early 2016, SRV was chosen as the developer for the €500 million Kanssi and Arena (Deck and Arena) project comprising

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



Source: KTI



Photo: SATO

some 120,000 sqm of multi-use arena, residential and sports facilities. The decision to start the project is expected to be made in summer 2016, and the whole complex to be completed by 2023.

The transactions in the Tampere region in 2015 were mainly made by domestic property funds. For example, Fennica, OP-Rental Yield and eQ's funds have invested in the region. Several domestic property funds and companies also invested in residential projects in Tampere.

"Tampere attracts domestic investors"

Oulu

Location: 600 km north of Helsinki
 Population: Oulu: 199,000
 Oulu region in total: 241,000

The City of Oulu has evolved markedly since the mid-1990s, first due to the rapid growth in the high-tech sector, which created new jobs and more recently due to the merger of neighbouring municipalities. Oulu is a University, science and technology city whose influence covers all of northern Finland – about one-half of the area of the entire country. The 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 about 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. This has affected the unemployment rate, which currently stands at some 16-17%. However, the availability of skilled labour coupled with public subsidies is attracting companies to the region, and both start-ups as well as large companies' IT functions are being founded.

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.

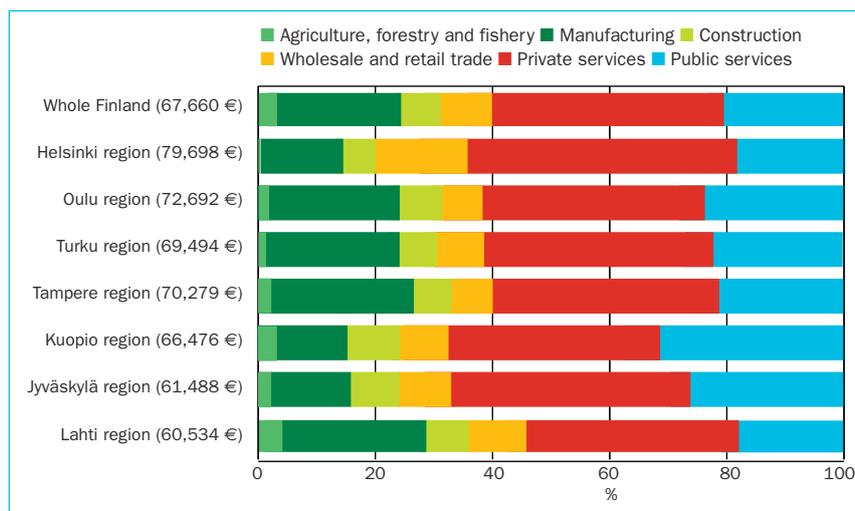
In recent years, the Oulu property transaction market has been mainly dominated by local players and rather small transactions. In 2015, however, the Swedish property company Sagax acquired a 68,000 sqm research and manufacturing property from NV Property Fund. Sirius's fund invested in two retail properties near Oulu. Some domestic players have also invested in rental residential properties in Oulu recently, although the residential rental market has not developed as positively as in other main cities.



Photo: SRV

Value added by sector and region 2013, %

Value added by employee (€) in parenthesis



Source: Statistics Finland

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 Valkea in the city centre. Arina also bought the two neighbouring properties from Citycon. Ilmarinen has just completed a retail, office and medical centre property project in the vicinity. Also a smaller shopping centre Toriportti is currently under construction in the centre. The projects are expected to revive the centre's retail market as well as attract new retailers in the city. On the negative side, Stockmann has published its intention to close down its department store in Oulu in 2017.

"Retail space supply increasing in Oulu"

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 Peltola just east of the city centre. The quality of the stock in these areas is dispersed, which affects rental levels. Accounting firm Talenom is currently developing an 8,000 sqm head office in the Peltola area east of city centre. Office rents currently stand at €12-14 per sqm per month. Limingantulli is a retail and office area south of the city centre. In the area, a new 4,200 sqm retail property is currently underway with XXL as the main tenant. Local co-operative Arina is also developing a retail property in the area.

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, whereas in the city centre continues to attract tenants.

Turku

Location: 160 km west of Helsinki;
in south-western corner of Finland
Population: Turku: 186,000
Turku region in total: 318,000

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

The region's current competence areas include businesses around the sea cluster, and biotechnology. Metal industries in the region are supported by an extensive shipbuilding business, which has traditionally been of great importance from the region's economic development point of view. The shipbuilding industry is currently developing strongly, supported by the recent acquisition by the German Meyer Werft that has resulted in several major orders, thus securing employment for several years. The proportion of private services in Turku region is higher than in most other Finnish growth centres.

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, some institutions have decreased their holdings in Turku and have sold properties to local players as well as to domestic funds.

The Kupittaa area, located near the University area and next to the railway station, is the most active office market in the Turku area. This area is mainly targeted at high-tech, biotechnology and business-to-business service companies, and consists of office and high-quality manufacturing space. Residential development has also recently been active in the area.

Turku Technology Properties is the major owner in the Kupittaa area, but domestic institutions and property companies also have significant holdings there. Turku Technology Properties currently owns around 130,000 sqm of space in the Kupittaa area and in the city centre. The company is currently redeveloping the 8,000 sqm ElectroCity building in the area, and the premises have attracted several new tenants. Turku Technology Properties is also planning to start the construction of an indoor sports arena in Kupittaa in 2016. The City of Turku is the main tenant in the property. In the vicinity, the construction of a

new University hospital building is just about to be started by road and land construction projects. Otherwise, new commercial property construction is limited to one 3,000 sqm grocery store project in Kaarina, west of Turku.

"The Kupittaa area in Turku continues to develop rapidly"

In addition to Kupittaa, modern office supply can be found in Pitkämäki and Port areas, as well as in the Logomo Centre, which is an event arena, conference centre and office centre targeted at creative companies – for instance, firms in design, advertising, media as well as games, music and programme production businesses. In 2015, the second phase of Logomo's office project was completed.

Retail space supply in the Turku area was increased in 2015 by the completion of the 21,000 sqm Mylly shopping centre extension in Raisio and a 4,500 sqm XXL store in the Skanssi area. In addition to these shopping centres, retail space can be found in the city centre, which has also increased its attractiveness recently among, for instance, tenants using large premises, such as furniture stores.

Rents for office space in the city centre stand at about €13-17 per sqm, and in the Kupittaa area, they are somewhat higher, about €15-20 per sqm per month. The office vacancy rate in Turku stands currently at slightly above 9%, according to Catella.

Demand for logistics and manufacturing premises is currently supported by the good situation of the shipbuilding sector.

Transactions in Turku in 2015 were dominated by care and residential properties. Titanium's fund acquired two medical centre properties from Varma in two separate transactions



Photo: SATO / Tuomas Uusheimo

amounting to €13 and €11 million. eQ's fund acquired another medical centre property from Auratum's fund. In the residential market, for instance SATO and LocalTapiola increased their investments in Turku in 2015.

Jyväskylä

Location: 270 km north of Helsinki, in the centre of Finland
Population: Jyväskylä: 137,000
Jyväskylä region in total: 179,000

Jyväskylä is a university town located at the junction of several important national main roads. Jyväskylä's economic structure emphasises both traditional industries and new technology. The Jyväskylä region's industry areas cover wood and construction materials and ICT as well as healthcare industries. Two-thirds of the region's jobs are currently in services. In recent years, unemployment has increased markedly, and is currently at some 19%.

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 close to 10%, according to Catella. There are no office construction projects underway at the moment.

Modern offices, in particular, have continued attracting tenants. In prime properties, rental levels are slightly lower than in Turku.

In the retail property market, Jyväskylä's city centre is an important regional centre. The major players include local retailers as well as some national investors. The Seppälä area north of city centre is another significant retail centre. The local co-operative is currently constructing a 22,000 sqm Prisma hypermarket in the Seppälä area, due for completion in late 2016. The construction of a new 24,000 sqm shopping centre Seppä is just about to be started in the area. The project is developed by Skanska, and LocalTapiola's fund has invested in this €70 million project, which is scheduled to be completed in 2017. Another smallish shopping centre is currently being built in Muurame. The amount of vacant retail space remains very 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.

"Retail property stock increasing in the Seppälä area in Jyväskylä"

Investment markets in Jyväskylä are dominated by local players and mainly small transactions. In 2015, Quorum's development fund bought an office property from Nordic Tower Properties fund, managed by Niam, and Fennica's fund acquired a smallish retail property. The local municipalities' Jykes Properties bought an office property from the local co-operative bank. Otherwise, the transactions comprised residential properties and residential development schemes.

Kuopio

Location: 400 km north-east of Helsinki
Population: Kuopio: 112,000
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 the 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 2015 there were no major transactions recorded in the region.

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 the Kuopio city centre is competing with the newly constructed Matkus Shopping Center some 10 km outside the city. The city centre's attractiveness has been supported by the completion of an underground parking facility and the refurbishment of some retail properties. However, new supply has resulted as an increase in the amount of vacant retail space.

In the Neulamäki area, west of the city centre, two logistics and distribution property development projects are currently underway.

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 around 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 some 19% at the end of 2015.

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 has recently concentrated on redevelopment, and in 2015, two office / retail redevelopment projects were completed. The Malski multi-use project is also currently underway. 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 and due for completion in early 2016.

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.

"Vacancy rates of office and retail properties remain high in Lahti"

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 7,700 sqm BW Tower, rented to the City of Lahti, was completed in 2015. The property was sold to a joint venture of three domestic investors. Otherwise, there was only one office transaction in the Lahti region in 2015.

Office vacancy has increased to some 11%, according to Catella. The amount of vacant retail space is one of the highest among the main cities.

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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For our tenants we provide service concepts such as Carefree Space and Easy Going Home, including business premises and rental homes with all accessory services.

The market value of the assets under our management is over three billion euros. We have extensive knowledge and insight of the Finnish real estate business, including investment strategies, transactions, management and letting. We are part of the finance house LocalTapiola Group, and we benefit from the group's vast and versatile financial knowledge. www.lahitapiola.fi/kiinteistovarainhoito



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. Founded in 1989, Newsec Finland is part of the Newsec Group headquartered in Stockholm, Sweden. Newsec has over 200 employees in Finland, with offices in Helsinki, Tampere, Turku, Jyväskylä, Hämeenlinna, Kuopio and Oulu. Its clients are among the leading Finnish and international real estate investors and corporations. In a survey carried out in 2016 by the Great Place to Work Institute® Finland, Newsec Finland was nominated for the ninth time among the top workplaces in Finland and as the best workplace within the real estate industry.

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

OVENIA

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

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 meters across Finland and the Group's turnover for 2015 was approximately €48 million. The company employs 600 property professionals in 23 locations. www.ovenia.fi, www.realprojekti.fi

RAKLI

Tilaa elämälle

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.

sato

SATO is one of Finland's leading rental housing providers. SATO's aim is to offer comprehensive alternatives in rental housing and an excellent customer experience. SATO holds roughly 23,600 rental homes in Finland's largest growth centres and in St Petersburg.

In our operations, we promote sustainable development and work in open interaction with our stakeholders to create added value. We operate profitably and with a long-term view. We increase the value of our housing property through investments, divestments and repair work.

We have operated in the housing market for 75 years, and we have acquired know-how concerning the changing customer needs and market dynamics along the way. Some 170 SATO employees are working daily with our partnership network for better housing. We are passionate about what we do and are proud of SATO.

SATO Group's net sales in 2015 were €323.4 million, with an operating profit of €196.5 million and a €159.4 million profit before taxes. SATO's investment properties have a value of roughly €2.8 billion. www.sato.fi

SEB

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 Finland, Norway, Denmark and Germany the bank's operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in its presence in some 20 countries worldwide. SEB has 4,000,000 private customers, 400,000 SME customers and 3,000 large corporations and institutions as customers. The Group has about 15,500 employees.

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

Real Estate Finance, which is a part of Large Corporates & Financial Institutions division, is responsible for real estate clients and offers financing, including structured finance and other SEB products to real estate clients in Sweden, Finland, Norway, Denmark and Germany. www.sebgroup.com or www.seb.fi

SIRIUS

Sirius Capital Partners is a real estate investment manager focusing on opportunistic and value-add real estate investments in Finland. We make co-investments on a deal-by-deal basis, as well as funds or club deals based on an investment theme. Our investors range from global and local institutions and multi managers to real estate funds.

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.

The firm advises Sirius Fund I Grocery, a fully invested fund with €100 million in equity. www.sirius.fi

SKANSKA

Skanska is one of the world's leading project development and construction groups with expertise in construction, development of commercial and residential premises, and public-private partnership projects. Based on its global green experience, Skanska aims to be the client's first choice for green solutions. The group currently has about 48,500 employees in selected home markets in Europe and the US. Skanska's sales in 2015 totaled €16.5 billion.

Skanska's operations in Finland cover construction services, residential and commercial project development and public-private partnerships. Construction services

include building construction, building services, and civil and environmental construction. The combined sales for Skanska Oy's operations in 2015 were approximately €821 million and the company employed 2,095 people at the end of the year.

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



SRV is a leader in the development, commercialisation and building of innovative construction projects.

We seek long-term profitable growth in business premises and housing construction in Finland's developing urban centres, close to good transport links, particularly rail traffic routes. Our business focus is in Finland. Additionally, we implement profitable shopping centre projects in Moscow and St. Petersburg, Russia.

We offer refined concepts and insightful new solutions to meet the needs of our customers. Our operating model is based on innovative project development and effective project management. The SRV Approach ensures transparent collaboration between all parties and a high-quality end result.

SRV Group Plc was founded in 1987. It presently has about 1,000 employees and a revenue of approximately €700 million. It operates in selected growth centres in Finland, Russia and Estonia. The company's share is quoted on the NASDAQ OMX Helsinki.

SRV introduced to Finland a project management model that has become one of the most adopted approaches to construction projects in Finland. The operating model enables SRV to create the best project-specific organisation to ensure efficient and high-quality implementation of the projects. This approach gives SRV's cost structure more resilience to economic fluctuations.

We apply the SRV Approach in business premises projects, apartment block projects for everyday living, attractive shopping centres and comprehensive area development projects, including earth and rock construction, as well as special projects, such as hospitals and public works. www.srv.fi/en



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KUHANEN | ASIKAINEN | KANERVA



OVENIA



SEB





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