KTI Market Review

Spring 2018

Transaction volumes remain high
Yields bottoming out?
Office vacancy rates decreasing
Helsinki CBD office rental growth accelerating
Residential rents continue increasing in main cities

KTI Market Review
Spring 2018

Transactions volumes have remained high in the Finnish real estate market in 2018. Record-low yields and a strengthening economic outlook, together with the lagging real estate and economic cycles have contributed to an inflow of capital into the Finnish real estate market. Yields remain higher compared to most other European markets, which attracts new foreign investors to the Finnish market.

In the current investment market, many various kinds of properties are attracting investors, and investor interest is high in all property sectors and in all main cities. However, yield gaps between different regions and risk categories remain significant.

The improving economic outlook supports the office market. Prime rents are reaching new record levels, and vacancy rates have eventually started to decrease. In the KTI Rental Database, the occupancy rate of office premises has increased especially in Vantaa and Espoo. However, the polarization of the market is still evident, and tenants are interested in space efficiency and quality. In the retail markets, increasing space supply, e-commerce and other trends in consumer behavior are increasing uncertainty, and the outlook for rental markets remains less positive than in the office markets. Retail occupancy rates remain, however, rather high.

In the rental residential markets, demand is supported by continued urbanization and the strengthening economy, and rents continue to increase in all main cities despite the rapid growth in supply in recent years. Foreign investor interest is high in the residential market.

The strengthening economy supports the property markets

The Finnish GDP grew by almost 3 per cent in 2017, which exceeds the EU average. For 2018, a growth of some 2.5 per cent is expected, and the total volume of production is finally expected to reach the level it was at before the global financial crisis in 2007. The growth is supported by both strengthening exports and increasing investments. In 2019, the GDP growth is expected to decrease to some 1.5-2 per cent.

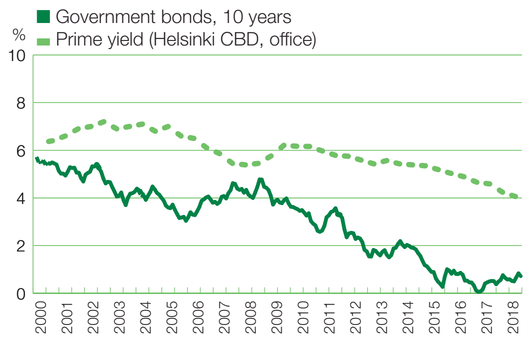
The strengthening economy supports the real estate investment markets. Compared to most other countries, the Finnish economic cycles are lagging, which increases foreign interest in the Finnish markets. In 2017, the gross investments of foreign real estate investors amounted to some €7.2 billion, and even the net sum amounted to €5.1 billion. During the first quarter of 2018, the net inflow of capital into the Finnish real estate markets has exceeded €1 billion.

Global uncertainty is reflected in the Finnish property markets

The global economy is expected to increase by some 4 per cent in 2018 and by some 3.5 per cent in 2019. However, the actions of central banks together with the increasing protectionism in global trade and geopolitical uncertainty might have a profound impact on global economic development and trade, which would affect the Finnish economy. As was proved after the global financial crisis, the Finnish real estate markets are highly exposed to the global financial markets and politics.

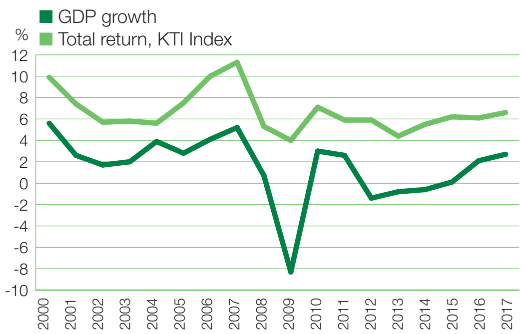
- Real estate markets are highly interlinked with economic development
- Foreign interest is increasing in the Finnish real estate markets

Long-term interest rate and prime office yield



Source: RAKLI-KTI Property Barometer, Bank of Finland

Total return of direct property investments and GDP growth



Source: KTI, Statistics Finland

The Finnish real estate market grew by 9 per cent in 2017

The size of the professional real estate investment market amounted to some €63.7 billion at the end of 2017. The market grew by some €5.5 billion or by some 9 per cent compared to the previous year. The growth was mostly fuelled by new property development. Market values of the existing investment property stock increased by only 1.2 per cent. The third potential source for the growth in the investment market, the sale-and-leaseback deals of corporations, only contributed to the growth by some €500 million in 2017.

Foreign investors became the largest investor group in the market

At the end of 2017, foreign investors accounted for some 29 per cent of the professional property investment market in Finland, and their total investments amounted to some €18.4 billion. This represents growth of almost 50 per cent compared to the previous year. The largest contributor to this growth was the acquisition of Sponda by Blackstone's Polar Bidco. Following the delisting of Sponda, the share of listed companies decreased to less than 5 per cent of the total market. Foreign investors have continued to increase their portfolios also in 2018 with net acquisitions exceeding €1 billion during the first quarter.

Institutional investors increased their portfolios but their share of the total decreased

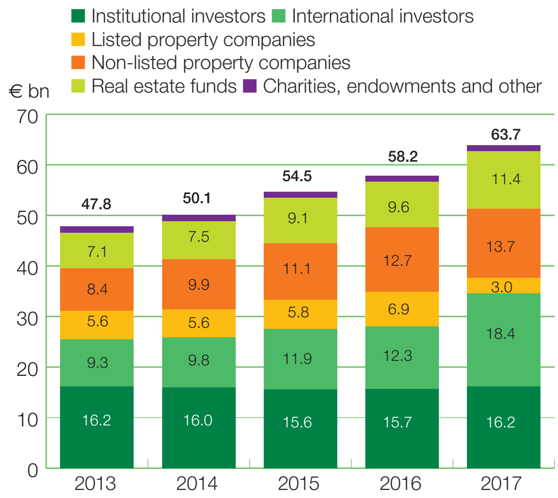
Domestic institutions have traditionally dominated the Finnish property markets. In 2017, the total amount of their direct domestic property holdings increased by some €0.5 billion, but their relative share of the total markets decreased to some 25 per cent. The Finnish pension and other insurance funds also continued to increase their indirect and foreign property investments, and the total amount of their property exposure increased by some €1 billion, to €23 billion. The share of direct domestic property investments of their total property portfolio currently stands at almost 70 per cent. The share of foreign investments increased to 17 per cent at the end of 2017.

Residential is the largest sector in the investment market

Residential properties maintained their position as the largest property sector in the investment market. At the end of 2017, their share amounted to some 29 per cent of the total property investment market. The share of office properties has decreased in recent years due to their weak investment performance, and stood at 27 per cent at the end of 2017. The amount of care properties has increased in recent years, and at the end of 2017, their total value stood at some €2.1 billion.

- The Finnish property investment market growth supported by active new development
- Foreign investors own almost €20 billion of properties in Finland
- The share of direct domestic investments is decreasing in Finnish institutional portfolios

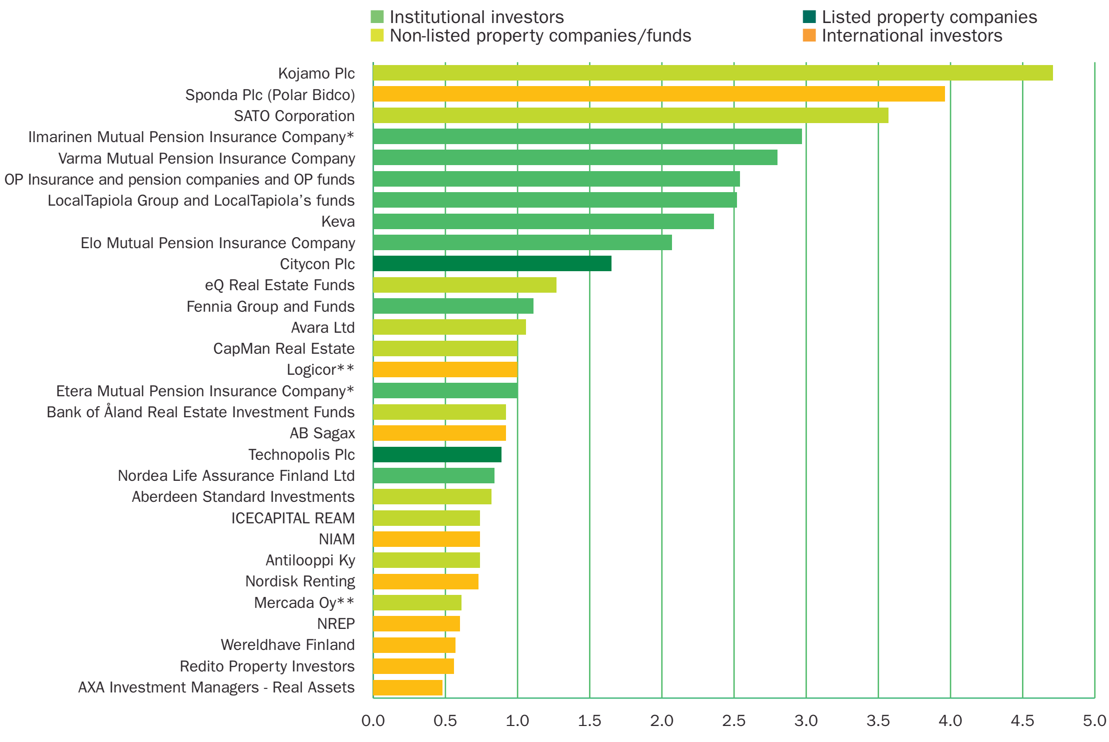
The structure of Finnish property investment market by investor group
Direct property investments in Finland



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

Direct property holdings of 30 biggest property investors in Finland

Property assets under management at the end of 2017



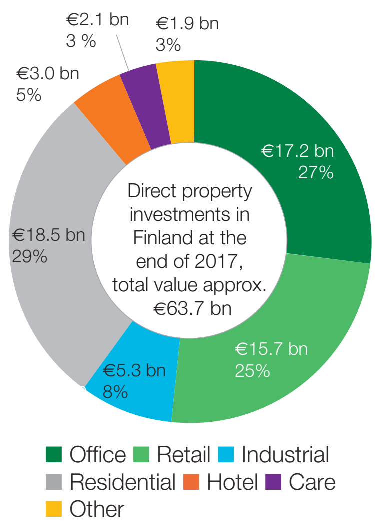
* Ilmarinen and Etera merged as of 1 January 2018
** KTI estimate

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

Changes in the list of TOP 30 property investors due to active portfolio restructurings

Residential property investor Kojamo maintained its position as the largest property investor in Finland in 2017. Its €4.7 billion property portfolio currently exceeds the value of the Finnish state's Senate Properties, which has traditionally been the largest property owner in Finland. In the positions below Kojamo, Ilmarinen's €3 billion property portfolio passed the value of Varma's direct domestic property holdings. After the merger of Ilmarinen and Etera in the beginning of 2018, Ilmarinen became the second largest property investor in Finland – although this position is threatened by a major disposal the company made in early 2018. Senate Properties and other public sector organisations are not included in the property investment market statistics.

The structure of Finnish property investment market by sector



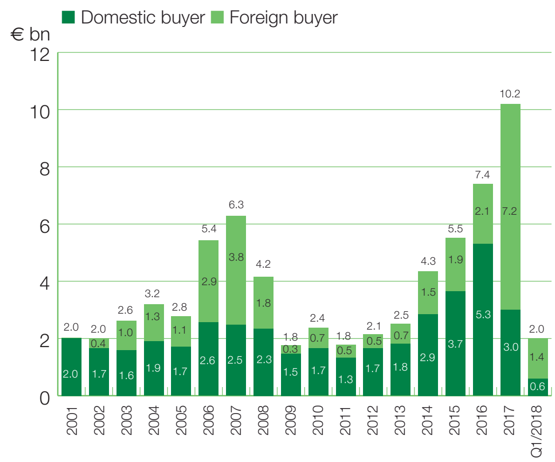
Source: KTI

Record-high volumes in transactions, record-low yield levels

After the record volumes in 2017, 2018 has also started briskly in the Finnish property transactions market. The total transaction volume of the first quarter of 2018 amounted to some €2 billion, which clearly exceeds the volume of the corresponding period in 2017, and is one of the highest quartile volumes in the past decade. The foreign investor interest remains high, and the share of foreign investors amounted to almost 70 per cent in the first quarter of 2018. However, reaching the record volume of €10.2 billion of 2017 would require the execution of several very large portfolio deals this year also. In the RAKLI-KTI Property Barometer survey carried out in April, property market professionals expect the transactions volume to remain high, but not to increase further from its current level.

- Large portfolio transactions increase the total volume
- All property sectors and regions attract investors
- Prime yields continue decreasing

Transaction volume in the Finnish property market



Source: KTI

Large portfolio transactions contribute to the total volume

The largest transaction of the first quarter of 2018 was carried out by the newly established Swedish Cibus Nordic Real Estate, who acquired the property portfolios of the two retail funds of Sirius Capital Partners for some €767 million. The company was listed on the First North list in the Stockholm Stock Exchange. The majority of the company's 123 retail assets are rented to Kesko, S Group or Tokmanni.

Large transactions have also been carried out in the residential markets. Morgan Stanley's fund entered the Nordic property markets by acquiring some 1,600 residential units from Kojamo Plc. Kojamo also acquired some 1,000 apartments from OP Group's funds in early 2018. In the care property markets, Evli's newly established Healthcare I fund acquired the portfolio of Northern Horizon's Healthcare II fund for €141 million. In the largest office portfolio deal in 2018 so far, Niam sold four office properties in Helsinki and Espoo.

Two major single-asset transactions in the Helsinki CBD also contribute to the total volume of 2018: in the largest office property transaction in Finland ever, Ilmarinen sold KPMG's head office property in Töölönlahti to Deka Immobilien for €189 million. AXA Investment Managers - Real Assets acquired the Kluuvi shopping centre and office premises in the property from CBRE Global Investors.

Record-low yields for prime properties

In the RAKLI-KTI Property Barometer survey carried out in April, the prime yield for Helsinki CBD offices was assessed at 4.06%, which is more than 0.5 percentages lower than in spring 2017. Transactions of the very best properties have been carried out clearly below this level, and in the barometer, the lower quartile was at 3.7 per cent. Helsinki has strengthened its position in international comparison, and the yield gap with for instance Stockholm has narrowed.

Although yields are compressing also outside the Helsinki metropolitan area, the risk premiums remain high. After the previous peak in 2009, the yields in the Helsinki CBD have decreased by some 2.2 percentages, while the yield compression in Tampere has only amounted to some 1.2 percentages. Higher yields are now attracting investors outside the Helsinki metropolitan area.

Yields bottoming out?

The yield for a prime retail property in Helsinki CBD was now assessed at 4.6 per cent, and that of a residential property at 3.7 per cent. Property market professionals do not expect any further yield compression, and in 2019, yields are expected to be at the same level or slightly higher than now.

Returns on property investments strengthened in 2017

Decreasing yields and improving economic outlook supported the property returns in 2017, and the total return in the KTI Index reached its highest level since 2010. Supported by the capital growth of 1.2 per cent, the total return amounted to 6.6 per cent. Income return decreased to 5.4%.

However, the performance of different property sectors and submarkets was varied: retail and industrial properties showed the weakest performance, and the Helsinki metropolitan area outperformed all other regions in all commercial property sectors. In the residential markets, the higher income return supported the returns in main cities outside the Helsinki metropolitan area.

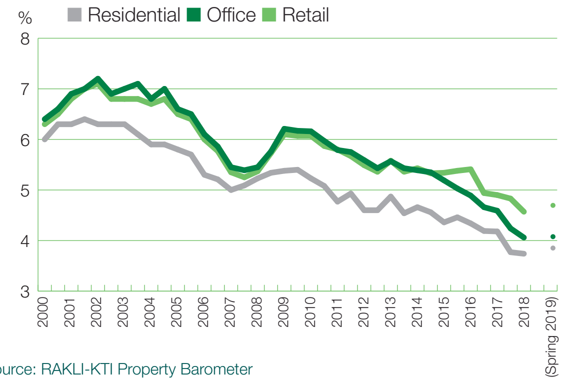
Construction volumes remain high

The total construction volume increased by some 5 per cent in both 2016 and 2017. The Confederation of the Finnish Construction Industries RT expects the volumes to increase by some 2 per cent in 2018, and to remain at the same level in 2019. Residential construction remains active in all main cities, whereas the commercial property construction activity is concentrated in the Helsinki metropolitan area.

Property taxes and service costs increase the operational costs

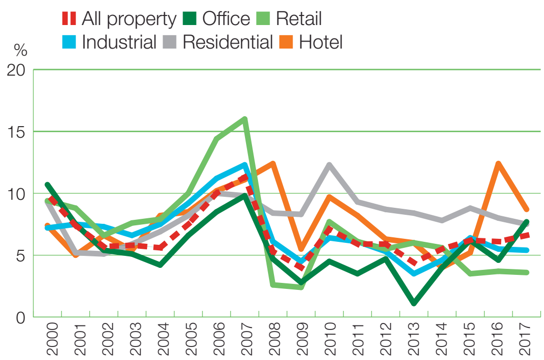
The KTI Operational Cost Index showed an increase of some 2.6 per cent for office properties and some 1.5 per cent for residential properties in 2017. The main contributor for the growth was property tax, which increased by some 9 per cent for office properties, and by some 5 per cent for residential properties. The share of property tax amounts to about one quarter of the total annual costs of office properties, and to some 9 per cent for residential properties. Property taxes increased more in the Helsinki metropolitan area than in the rest of the country. Also various service costs increased from the previous year. On the other hand, energy costs decreased for both office and residential properties.

Prime property yields in Helsinki CBD



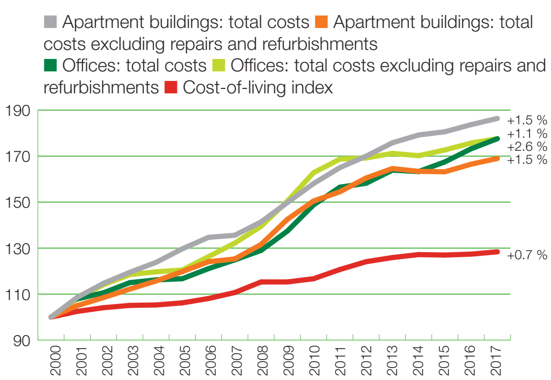
Source: RAKLI-KTI Property Barometer

Total returns by property sector



Source: KTI Index

Development of operational costs for apartment buildings and offices, whole Finland



Source: KTI, Statistics Finland

Office properties attract investors

Investment market for offices has been very active, especially in the Helsinki metropolitan area. Several significant office property transactions have been completed during the last 12 months. Also the volume of new development has increased. A positive market situation has also boosted investments elsewhere in Finland.

- Helsinki CBD office rents reached new record levels
- Office supply is increasing in the Helsinki metropolitan area
- Office occupancy rates are slightly improving

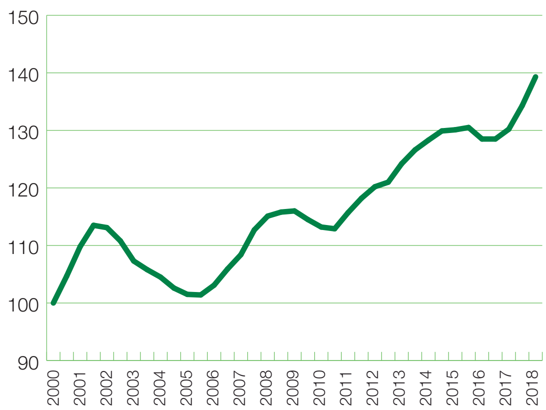
Helsinki CBD is the main office submarket in Finland

The significance of the Helsinki CBD for Finland's office market remains large. International property investors are very interested in the Helsinki CBD prime assets, and the office rental growth is also strongest there. According to the KTI Index, capital growth has been stronger in Helsinki CBD for several years compared to other office submarkets in the Helsinki metropolitan area. In 2017, capital growth was particularly strong in the Helsinki CBD, and exceeded 9 per cent.

Capital growth was mainly supported by decreasing yields, but office rents are also increasing markedly. The KTI Office Rent Index for the Helsinki CBD increased by 7.0 per cent during the past year, and by 3.7 per cent during the past six months. The annual growth rate was the largest since 2001.

The median rent in new agreements started during September 2017 - February 2018 increased by €0.7 per sqm to more than €30 per sqm per month. The upper quartile stood at €35.4 per sqm, showing an increase of almost €2 per sqm compared to the previous six-month period.

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



Source: KTI

Positive development also in the broader central area

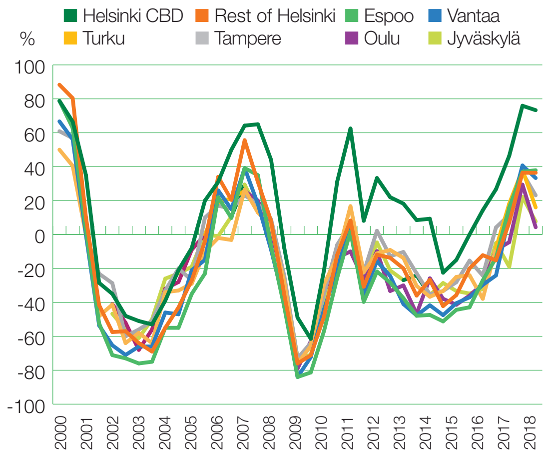
Office market values and rents have also increased in the broader Helsinki city centre area, outside the CBD. In this area, the capital growth for offices was +4.6% in 2017, and office rents increased by more than €2/sqm/month during the last six months. The median office rent stood at €25.5/sqm/month.

However, the differences between Helsinki metropolitan area's office submarkets remain large. In the rest of Helsinki, as well as in Espoo and Vantaa, office capital growth remained negative in 2017. The differences in rental levels also continue to grow. For example, in the Pitäjänmäki district in Helsinki, median office rent for new agreements remained stable at some €12/sqm/month, which is 60% lower in price than in the Helsinki CBD.

Office rents expected to increase in all major cities

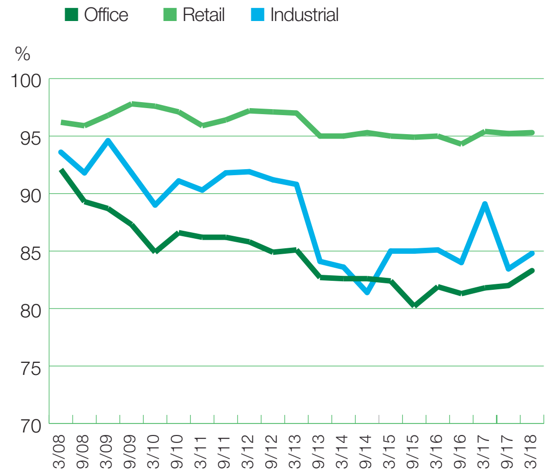
The respondents of the RAKLI-KTI Property Barometer, conducted in April, also estimated that prime office rent in the Helsinki CBD has increased again to the all-time high level. The assessed average rent increased by more than one euro from the previous survey in October, to €33 per sqm. In Espoo and Vantaa, the prime office rents have slightly decreased, but in Tampere, Turku, Oulu and Jyväskylä they have increased, according to the barometer. The outlook is positive especially in the Helsinki CBD, where 73 per cent of the respondents expect office rents to increase during the next six months. In other cities more than half of the respondents expect office rents to remain stable. The balance figures of expected rental growth of offices have slightly decreased from last autumn, but remain positive.

Outlook for office rents
Balance figures



Source: RAKLI-KTI Property Barometer

Commercial property occupancy rates in the Helsinki metropolitan area



Source: KTI

Office occupancy rates increased in the Helsinki metropolitan area

Office occupancy rates have also increased in the Helsinki region. In the KTI Rental Database the occupancy rates in the large investors' portfolios increased to 83.3 per cent after having been 81-82 per cent for the past two years. The occupancy rate improved especially in Vantaa, by five percentage points to 86.3 per cent. Also in Espoo the amount of vacant space decreased, while in Helsinki the amount remained rather stable. Both in Helsinki and Espoo, office occupancy rates are now close to 83 per cent.

The amount of vacant office space decreased during the past six months for example in the Aviapolis, Pitäjänmäki and Kilo-Mankkaa districts. Meanwhile in some other significant office areas, such as Pasila, Sörnäinen and Ruoholahti, the amount of vacant office space has slightly increased.

In Tampere, the office occupancy rate has continued to decrease, and stood at approximately 83 per cent. The amount of vacant office space has increased in the Tampere city centre area, for example. The office occupancy rate for the whole of Finland increased to 84.8 per cent from 83.4 per cent last autumn.

Office construction is active only in the Helsinki metropolitan area

Office development volumes have increased significantly during the past two years in the Helsinki metropolitan area. According to KTI statistics, some 178,000 sqm of new office space was under construction at the end of March. The figure has increased by some 50,000 sqm from the beginning of this year since new office projects have been started especially in the Kalasatama and Vantaankoski districts. In addition, there was some 120,000 sqm of office space under major renovation in the Helsinki metropolitan area. Although old office properties are continuously being converted to other use as well as being demolished, the total office stock is nevertheless increasing due to abundant new supply. This is creating further pressures for occupancy rates.

Outside the Helsinki region the office construction volumes have been rather low during the whole decade. Of the other cities, office construction has been most active in the Tampere region where some 110,000 sqm of new office space has been completed during the 2010s.

In early spring, listed property company Technopolis Plc started to develop a new office campus in the vicinity of Tampere railway station. In the first phase of the project, Skanska will build two office buildings, comprising over 13,000 sqm of leasable office space. New office space is also being planned in the Tampere city centre as part of the Deck and Arena project. In other growth centres, there are only few office development projects under construction.

Despite abundant office construction in the Helsinki metropolitan area, the respondents of the RAKLI-KTI Property Barometer are optimistic about the outlook of office occupancy rates. More than 60 per cent of the respondents estimate that the amount of vacant office space has decreased in the Helsinki region during the past six months, and a clear majority expects that the positive trend will continue also in the near future. Also in the rest of Finland 49 per cent of the respondents expect that the amount of vacant office space will decrease.

Retail property supply grows in the Helsinki metropolitan area

- Retail occupancy rates increased in growth centres
- Retail rents are expected to increase in the Helsinki region and Tampere
- Shopping centre sales and supply continues to grow

Abundant retail construction in the Helsinki metropolitan area continues. According to the statistics of KTI, some 287,000 sqm of new retail space was under construction in the Helsinki metropolitan area at the end of March 2018, which is some 20,000 sqm more than six months earlier. About half of the new retail space will be built in two major shopping centres, the Mall of Tripla and REDI. The most recent retail projects, started in 2018, are the extension of Hertsi retail centre in the Herttoniemi district in Helsinki, and the Laajalahti retail park in Espoo.

In other growth centres retail construction volumes are currently low. During the past few years, several new retail properties have been developed especially in Tampere, but also in the Oulu and Jyväskylä regions. In April 2018, the retail supply in Tampere increased significantly due to the completion of Ratina shopping centre and Westeri retail centre. Currently, there are only some smaller retail centres and hypermarket projects under construction outside the Helsinki region.

In Virolahti, next to the Finnish-Russian border, several commercial property projects have been planned during the past years. The construction of the first project, a 12,000 sqm Zsar Outlet Village, is currently underway. The outlet centre comprises several international and Finnish brands, and is expected to be completed in late 2018. In Seinäjoki, a 70,000 sqm Ideapark shopping centre is being planned.

Occupancy rates stable in Helsinki region, increasing in other growth centres

The occupancy rates of retail premises have remained stable in the Helsinki metropolitan area for the past five years. In March 2018, the Helsinki metropolitan area retail occupancy rate stood at 95.3 per cent. In Espoo and Helsinki the occupancy rates increased slightly, while in Vantaa, the occupancy rate decreased and remains lower than in the neighbouring cities. In other major Finnish cities the retail occupancy rates mainly increased during the autumn and winter. Especially in Oulu, the amount of vacant retail space has decreased in the city centre area. The average occupancy rate of retail premises for the whole of Finland increased to over 93 per cent.

Retail rents increasing especially in Helsinki CBD

In the Helsinki CBD, retail rents have continued increasing. According to the RAKLI-KTI Property Barometer, the prime retail rent in the CBD has increased by as much as €15 per sqm during the past six months, to some €129 per sqm, and rents are expected to increase further in the near future. In the KTI Rental Database, the number of new retail rent agreements decreased in the CBD and the whole of Helsinki, and new agreements have not been signed on the most expensive premises.

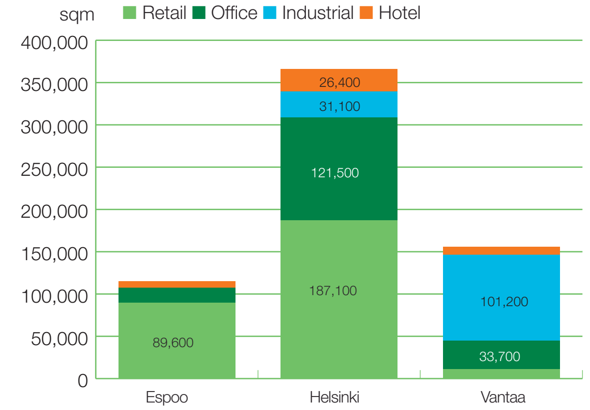
The outlook for retail rents has, however, turned slightly less positive during the past six months. According to the RAKLI-KTI Property Barometer, the balance figures for the expected retail rent development are now lower than in the previous survey in all major cities. In Helsinki, Espoo, Vantaa and Tampere the balance figures are still clearly positive, while in Turku, Oulu and Jyväskylä the balance figures are close to zero. In the rest of Finland many respondents expect retail rents to decrease, and the balance figures are negative.

Shopping centre sales increased by 2.3 per cent during the first quarter

In the first quarter of 2018, total retail sales of Finnish shopping centres increased by 2.3 per cent compared to the corresponding period last year. Sales grew rather equally in the whole of Finland. However, in like-for-like comparison, which excludes new supply, the number of visitors decreased by 4.1 per cent. If new supply is taken into account, the sales and number of visitors increased by 6.2 and 1.2 per cent respectively.

Among the various business fields in shopping centres, the sales of health and beauty increased the most. Daily goods sales also increased strongly,

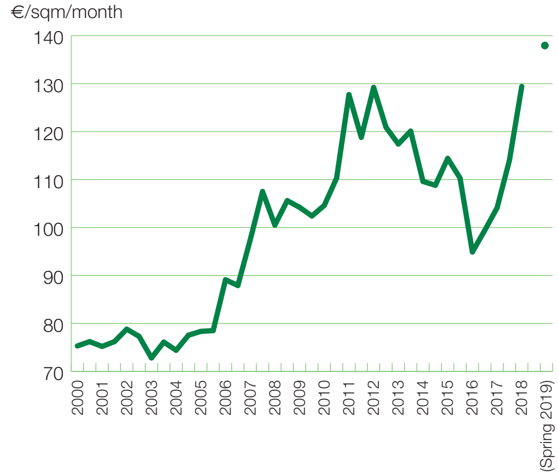
New development projects under construction in the Helsinki metropolitan area in March 2018
rentable area



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

Source: KTI, RPT Docu Oy

Prime retail rents in Helsinki CBD



Source: RAKLI-KTI Property Barometer

especially in the Helsinki metropolitan area shopping centres. Fashion was the only business field where sales decreased in early 2018.

The figures are based on the indices published by Finnish Council of Shopping Centers, in co-operation with KTI. The figures comprise 39 shopping centres, covering approximately 80 per cent of the total sales and lettable area of the Finnish shopping centre market.

Residential properties continue attracting investors

In the KTI Index, residential properties outperformed other main property sectors every year between 2008 and 2016. The returns were boosted by the growth in market values: in the 20-year history of the Index, capital growth has always been positive. In 2017, the total return on residential properties amounted to 7.5 per cent. Although some other sectors outperformed residential in 2017, the 5 or 10 year average annual returns still stand at some 3.5-4 percentages higher than for office or retail properties.

Income return on residential properties has decreased from the level of 5.9 per cent in 2008 to 5.1 per cent in 2017. Income return has decreased due to the increase in capital values as well as to the concentration of institutional portfolios in the largest cities and more expensive assets. In 2017, however, income return remained stable, supported by the rental growth and stable operational costs.

The Helsinki metropolitan area and other main cities attract investors

Geographical differences are highlighted also in the residential markets. In 2017, the main cities outside the Helsinki metropolitan area produced the best total returns, supported by both higher income return and capital growth. In smaller cities, however, capital growth was negative, and total return decreased to less than 5 per cent.

The changing ownership structure of the residential market

Of the 854,000 rental apartments in Finland, some 56 per cent are non-subsidised. Of the non-subsidised rental residential property stock, some 60% is owned by private individuals or small investors. Large professional investors own some 179,000 rental dwellings, and the number has increased steadily in recent years.

The largest residential property investors are Kojamo and SATO with portfolios of some 34,000 and 26,000 rental dwellings, respectively. Of the other investor groups, both institutions and property funds have increased their holdings in recent years. However, many residential property funds have also been active in disposing their assets in order to exploit the beneficial market conditions.

- Foreign investor interest increasing in the Finnish residential property market
- Residential rents continue increasing in largest cities

Foreign investors increasingly interested in the Finnish residential property market

Foreign investors have only entered the Finnish market in the past couple of years, but they are becoming increasingly interested in increasing their exposure. AXA Investment Managers - Real Assets has increased its Finnish residential property holdings to more than 1,000 dwellings in several transactions in 2017 and 2018. In early 2018, Morgan Stanley's fund entered the Nordic property markets by acquiring a portfolio of 1,600 residential units in Finland from Kojamo. Foreign investors currently own some 8,000 rental dwellings in Finland.

Residential rents increased by 2 per cent in the Helsinki metropolitan area

The supply of rental residential dwellings is increasing rapidly in all main cities. The increase in supply has slowed down the rental growth, which is, however, currently supported by the accelerating urbanization as well as by the strengthening economic outlook. Rents continue to increase in all main cities: Helsinki, Espoo, Vantaa, Tampere and Turku. The KTI Rental Index for new rental agreements increased by 2 per cent in the Helsinki metropolitan area between spring 2017 and 2018. Rents increased the most in Helsinki, by 2.6 per cent, whereas in Espoo and Vantaa, rents increased by some 1 per cent.

Tampere and Turku show stronger growth than other regional cities

In the main cities outside the Helsinki metropolitan area, rents in new rental agreements decreased by 0.2 per cent on average during the past year. Tampere and Turku showed clearly positive development, whereas in Oulu, Jyväskylä and Lahti rents decreased by some 1 per cent. Also in the RAKLI Rental Residential Barometer survey carried out in March, some 70-90 per cent of the respondents expected rental growth for small apartments to continue in the Helsinki metropolitan area, Tampere and Turku, whereas in other main cities, less than 50 per cent expected rents to increase within the next year.

Construction activity concentrates on small apartments in apartment buildings in large cities

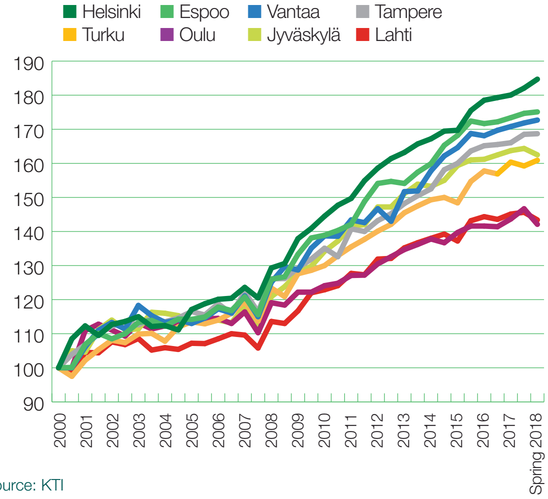
Urbanization and the decreasing size of households, together with the increased attractiveness of residential property investment are boosting residential property development. Of the 46,000 dwellings started in 2017, some 77 per cent were in apartment buildings. More than one third is located in the Helsinki metropolitan area and another 30 per cent in other main cities.

Construction costs and availability of workforce constrain housing construction

Due to the healthy demand for rental residential dwellings, property investors are also keen on investments in new development in the future. Of the respondents of the RAKLI Residential Barometer survey, 94 per cent state that they would like to increase their investments. However, some 80 per cent of the respondents state that construction costs and the availability of a skilled workforce as well as plots restrict their investments in the current market conditions. The availability of a skilled workforce in particular has become more difficult during the past year.

KTI Residential Rent Indices

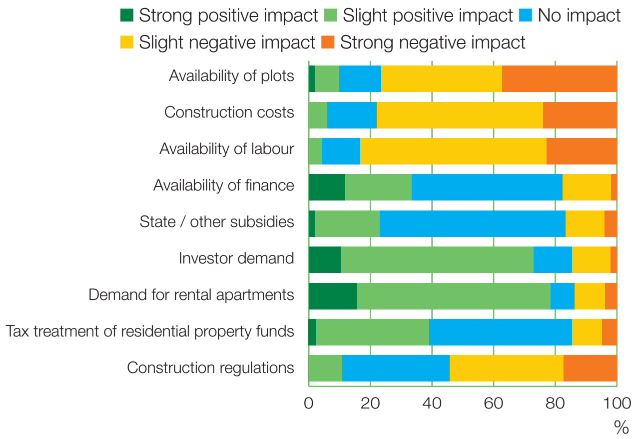
new agreements, index spring 2000 = 100



Source: KTI

Drivers of residential construction

How will the following drivers impact the construction of rental residential properties during the next year?



Source: RAKLI Residential Barometer, spring 2018

Investments increasing also in other property sectors

Office, retail and residential properties account for some 81 per cent of the Finnish professional property investment market. However, many property investors are currently looking for investments also in other property sectors.

- Hotel properties increasingly attract investors
- The industrial property market is dispersed
- Two billion euros of care properties are in the professional investment market

Values of hotel properties are increasing

Investor interest for hotel properties has increased during the past couple of years. The transaction volume of hotel properties was low in the early 2010s, but recently the volume has increased. In 2016 and 2017, hotel property transaction volumes amounted to €100 and €220 million, respectively. In addition, there have been several office transactions where the property is planned to be redeveloped into hotel use. For example, in 2017, Exilion's fund acquired the current head office of VR Group for €55 million. The property will be redeveloped into hotel use after VR Group moves to new head office premises.

The capital growth of hotel properties has been positive in the past couple of years. In the KTI Index, hotel properties have produced the highest total returns of all sectors in 2016 and 2017. Last year market values increased by 3 per cent and the total return amounted to 8.7 per cent.

The hotel property market has been boosted by increasing tourism and the increasing supply of different kinds of hotel concepts. Several significant hotel property development projects are under planning across Finland. Stable and long-term cash flow attract for example institutional investors in the hotel property investment market.

Industrial property stock increases in Vantaa

Industrial properties comprise warehouse, logistics and manufacturing premises. Property investors are mostly interested in the modern warehouse and logistics properties. Some light manufacturing properties also exist in the large investors' portfolios, but large manufacturing plants are mainly owned by industrial corporations themselves.

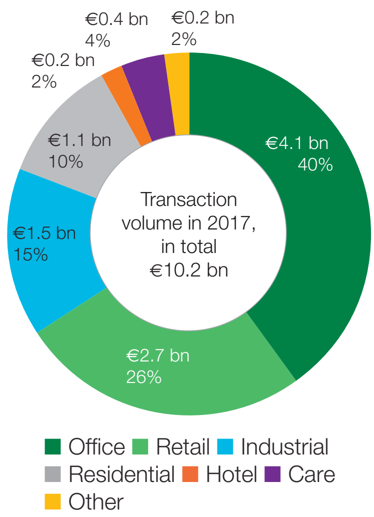
The total returns of industrial properties have been rather low in recent years, due to negative capital growth. In the KTI Index, the market values of industrial properties have decreased for ten consecutive years. The rental levels of the well-located premises have, however, remained stable. The respondents of the RAKLI-KTI Property Barometer estimate that prime rent of modern industrial property in the Helsinki metropolitan area stands at €10-11 per sqm. The balance figures of industrial rent expectations are slightly positive in the Helsinki region, while in other major cities 70-80 per cent of the respondents expect rents to remain stable.

In 2017, the industrial property transaction volume increased to €1.5 billion, mainly due to the Logicor transaction. Of Logicor's total portfolio of some 13 million square meters of logistics and warehouse premises, some 1 million sqm is located in Finland. Industrial property stock is currently increasing in the Northern Helsinki region, mainly in Vantaa. At the end of March, more than 100,000 sqm of new warehouse, terminal and logistics properties were under construction in Vantaa.

Care properties are increasing rapidly in large investors' portfolios

In recent years, the share of care properties has increased rapidly in the portfolios of professional property investors. At the end of 2017, the total value of care properties stood at some €2.1 billion. The figure has doubled during the last two years. The increase is expected to continue, since specialized care property investment companies and funds both develop and acquire care properties for their portfolios. During 2015-2017, the annual care property transaction volume has amounted to €300-500 million.

Transaction volume by sector in 2017



Source: KTI

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

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