



KTI Market Review

Spring 2019

The invested real estate market continues to grow
Property transactions volume remains high
Rental growth slowing down in the commercial property market
Residential rents continue to increase



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Property transaction volume remains high in Finland. Investor interest is targeted at all sectors and regions. Foreign investor interest remains strong, but domestic players are also active in the transactions market. Strong investor demand and high development volumes contribute to the growth of the invested market.

After a short break late in 2018, property yields have continued to compress. During the first quartile of 2019, transactions of the very best properties in the Helsinki CBD have been carried out at record low level yields. In addition to the Helsinki metropolitan area, yields have also decreased in the Tampere and Turku regions.

Going forward, construction volumes are expected to decrease from their current high levels. However, commercial property stock continues to increase, as ongoing projects are completed in 2019 and 2020. In residential property development, the decrease in investor demand is slowing down the volumes from their record-high levels of 2018. Despite the decline, residential property construction volumes are expected to remain healthy.

In the commercial property rental markets, the strong demand of the previous years is expected to slow down. In the Helsinki CBD, office rents continue to increase, but at a slower pace than in 2017 and 2018. The outlook in the retail market remains more negative, and rents are expected to remain stable in the best areas in Helsinki but to decrease in all other areas.

Supply in the rental residential market is increasing due to active new development. Despite this, the increase in rents has accelerated in all major cities after a couple of years of slower growth. Occupancy rates remain high, which supports healthy income returns despite the continuous increase in market values. Foreign investors strengthened their position in the Finnish residential property investment market in 2018, and their interest is expected to remain strong also in the future.

In addition to the main property sectors, smaller sectors are also increasing their attractiveness in the investment market. The supply of hotels is increasing in the largest cities, supported by property investor demand. In public sector properties, investor interest is expanding from care properties to other sectors, such as educational properties. The sluggish development of the retail property sector supports the attractiveness of logistics properties in the investment market.

The slowing growth in the world economy impacts the Finnish economic outlook

Trade disputes, Brexit and political insecurity in different parts of the world are reflected in the Finnish economy. The slowing growth of Germany, the largest target country of the Finnish exports, in particular, is increasing the insecurity of the economic outlook. For the time being, however, the outlook for Finnish exports is relatively strong, and, for instance, the long order backlog of the shipbuilding industry is dampening the impact of the slowdown. As the international outlook slows down, the Finnish economy is increasingly dependent on domestic drivers.

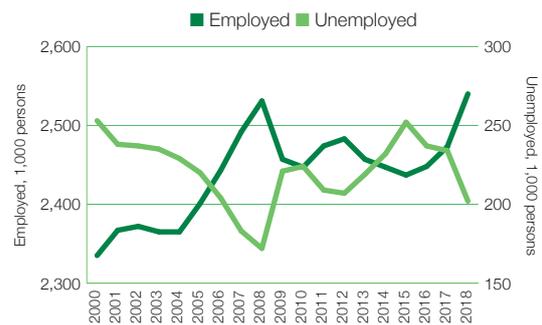
In 2018, the Finnish GDP grew by 2.3 per cent, which is above the average in the Euro area. For 2019, slower growth of some 1.5 per cent is expected, and in 2020, the outlook is even weaker. Of the various economic areas, the most positive forecasts are presented for the labour markets, where unemployment is expected to decrease to some 6.5 per cent in 2019. In March, the trend of employment rate increased to 72.6% . Supporting the increase in the employment rate is expected to be one of the key objectives of the new Finnish government. Strengthening employment also supports commercial property rental markets.

Private consumption the main driver for economic growth

Despite the slight levelling of consumer confidence in recent months, private consumption is expected to be the main driver for economic growth in the coming years. Increasing employment and earnings support purchasing power, and private consumption is forecasted to increase by some 1.5 per cent both in 2019 and 2020.

- Improving employment supports consumption
- Decreasing economic growth smooths the outlook in the commercial property markets
- Commercial property construction volumes decreasing

Employment and unemployment in Finland



Source: Statistics Finland

GDP growth in Finland and in the Euro area



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

Office and retail construction permits Helsinki metropolitan area



Source: Statistics Finland

Consumers' strengthening position and purchasing power, together with low interest rates, support the demand in the residential markets. In the retail property markets, however, changing consumer behavior is dampening the impacts of positive development of consumption.

Construction volumes levelling out

High construction volumes have, in recent years, been one of the main drivers of Finnish economic growth. For the time being, ongoing projects continue to keep up high volumes, and, for instance, turnover of building construction increased by some 6-7 per cent

in 2018. However, towards the end of the year, volumes of construction permits started to decrease, which indicates zero growth in volumes for this year, and a significant decrease for the coming years. Compared to the previous year, construction permit volumes in cubic metres decreased by 9 per cent in 2018. In the last quarter, permit volumes were 16% lower than in the corresponding period in 2017. In office and retail construction permits, volumes were 48% lower than in the previous year, and the Confederation of the Finnish Construction Industries RT expects volumes in these sectors to decrease to their lowest levels since the 1990's.

Property investment market increased by 9 per cent in 2018

The growth of the Finnish property investment market continues to exceed the overall growth of the economy. In 2018, the total size of the invested property market increased to some €69.5 billion, which indicates a growth of 9 per cent compared to 2017. New construction by professional investors continued to be the main driver for growth. Of the other elements of market growth, market values of investment properties increased by 1.3 per cent in 2018, according to KTI Index. Property outsourcings of corporations and public sector organisations amounted to some €900 million.

Foreign investors strengthened their position as the largest investor group

At the end of 2018, foreign investors' property holdings in Finland amounted to €22.3 billion, which corresponds to some 32% of the total market. The total value of foreign investments increased by some 21% in 2018.

Foreign investors were involved in several large transactions in 2018, and, for the whole year, their net purchases amounted to €3.7 billion. The largest transactions between a domestic seller and foreign buyer included, for instance, the sale of the two retail property portfolios by Sirius Capital Management, the acquisition of the Tripla Workery offices by Commerz Real, as well as the sales of the Töölönlahti office buildings by Ilmarinen. The acquisition of the Technopolis shares by Kildare Partners also impacts these statistics in 2019.

The listed property sector increased and decreased again

Within the domestic investor groups, the most significant changes in recent years have been seen between the unlisted and listed property investment companies. In

summer 2018, the almost €5 billion Kojamo portfolio was listed in the stock exchange. In the previous year, the shares of Sponda were unlisted following the acquisition of the shares by Polar Bidco, owned by Blackstone and AREIM. In early 2019, the listed property sector's Finnish property holdings decreased by some €1 billion, as the flexible office and workspace company Technopolis was unlisted.

The structure of the Finnish property investment market by investor group

Direct property investments in Finland 2011-2018, € billion

■ Institutional investors ■ International investors
■ Listed property companies ■ Non-listed property companies
■ Real estate funds ■ Charities, endowments and other



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

- The invested property market continues to grow
- Foreign investors' share close to one third of the total market
- Institutions' direct domestic investments increased slightly
- Some 20% of institutions' property investments are non-domestic
- Office and care properties increased their share of the total market

Institutions' and domestic funds' portfolios remained stable

The amount of domestic institutions' Finnish property holdings has, in recent years, remained stable at some €16 billion. Institutions continued to restructure their portfolios through various property sales, but, at the same time, they have increased their investments through new property development. In the transactions market, institutions were, again, net sellers with Ilmarinen carrying out the largest sales in 2018. The share of direct domestic investments in institutional property portfolios remained stable at almost 70 per cent, while

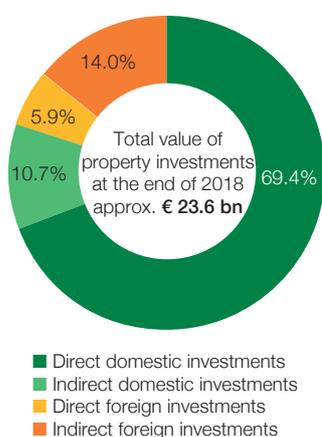
the share of indirect domestic investments decreased to 11 per cent. The share of foreign investments of institutional investors' total property holdings of €23.6 billion increased to almost 20 per cent in 2018.

After several years of rapid growth, the property investments of domestic property funds remained stable in 2018. In the transactions market, funds were active in both selling and acquiring properties, and in total, their sales exceeded acquisitions by some €600 million. The largest sales of property funds included the exits of two retail funds managed by Sirius Capital Partners, as well as one residential fund managed by ICECAPITAL. In the acquisition side, the volume consisted of various, mainly relatively small transactions. Funds' portfolios increased also through property development.

Residential properties remained the largest sector in the market

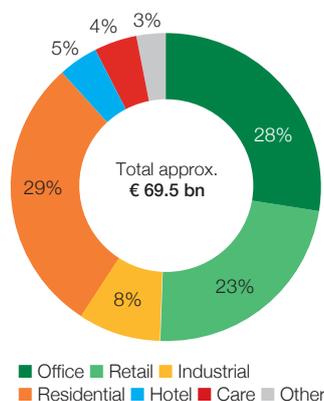
Rental residential properties became the largest sector in the investment market in 2016. In 2018, their share remained stable at some 29% of the total market. The share of office properties increased slightly, to 28%, supported by both new development and increase in market values. Retail properties' share continued to decrease, mainly due to continuous negative capital growth, and stood at some 23%. The amount of care properties in the investment market has increased in recent years, and stood at almost €3 billion at the end of 2018.

Real estate exposure of Finnish institutions



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

The structure of Finnish property investment market by sector



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

2018 was the second most active transaction year ever

The total volume of property transactions amounted to €9.4 billion in 2018, which was some €800 million lower than the record level of 2017. The transaction market was boosted by foreign investors, who accounted for two thirds of the total volume.

The number of transactions exceeding €1 million carried out by professional investors exceeded 300, which indicates a significant increase compared to the previous year. However, the average size of transactions decreased from €34 million in 2017 to €28.5 million in 2018.

New investors keep entering the market

More than 10 new foreign investors entered the Finnish market in 2018. The most significant newcomers include the funds managed by Morgan Stanley, who acquired some 1600 rental apartments, as well as the shopping centre Itis, and BlackRock, who has, so far, acquired three office buildings in Helsinki. Also Cibus Nordic Real Estate, established in early 2018, is a significant new player in the market, who, after the first acquisition of almost €800 million retail property portfolio, has expanded its portfolio in several transactions. Another Swedish newcomer Castellum has invested in a large office building in Ruoholahti. Swiss Life also entered the Finnish office market, and the German Commerz Real has returned to the market after a period of non-involvement.

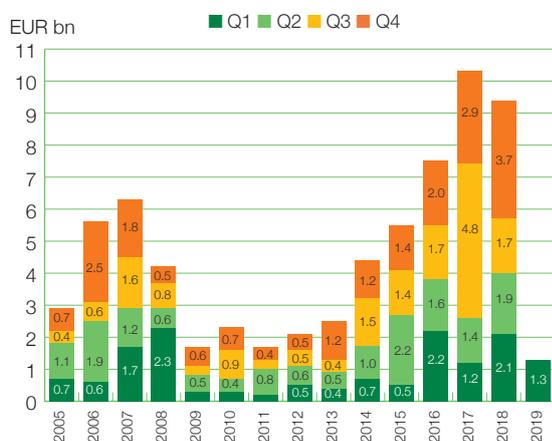
- Property transaction volume remains high
- Number of players continue to increase as new investors enter the market
- Yields for prime commercial properties continue to compress
- Properties delivered stable total return in 2018

An active first quarter of 2019

The total volume of the first quarter of 2019 amounted to some €1.3 billion. This was the 16th consecutive quarter during which the volume exceeded €1 billion.

Unlike in recent years, some 70% of the first quarter's transactions were carried out by domestic investors. The largest domestic transactions included the acquisition of 34% of the shares of the shopping centre Jumbo by Elo, the establishment of a €100 million residential property company by YIT with its partners and the acquisition of

Transactions volume in the Finnish property market



Source: KTI

Prime property yields in the Helsinki CBD



Source: RAKLI-KTI Property Barometer

an office building in the Helsinki CBD by Nordea Life. Several domestic funds also carried out transactions in the first quarter.

The largest foreign transaction of the first quarter was carried out by Hemsö, who completed the acquisition of a care property portfolio from the City of Turku. Also, the German newcomer Quadoro Doric made two investments, and BlackRock continued to increase its portfolio with the third office building. In late April, the Swedish Samhällsbyggnadsbolaget i Norden AB (SBB) acquired a care property portfolio worth €142 million from eQ's special investment fund, and thus carried out the largest foreign transaction of 2019 so far.

Strong investment demand continues to pressure yields

After a short period of levelling out in late 2018, prime property yields have continued to decrease in early 2019. In the RAKLI-KTI Property Barometer, carried out in April, the prime office yield for Helsinki CBD offices was quoted at 3.95 per cent, which indicates a decrease of some 0.1 percentages since last autumn. The lower quartile of responses decreased to 3.5 per cent, and the very best properties are transacted at even lower levels.

Outside the Helsinki metropolitan area, the strongest demand is targeted at the Tampere and Turku regions, where yields also continued to decrease. The average yield for a prime office in Tampere was now quoted at 6.4 per cent, and that of Turku at below 6.6 per cent. In Oulu and Jyväskylä, yields remained at 7-7.5 per cent.

Yield for a prime retail property in the Helsinki CBD decreased slightly to 4.4 per cent. However, for residential properties, a subtle increase was quoted, and the yield stood at 3.6 per cent in the prime areas in Helsinki.

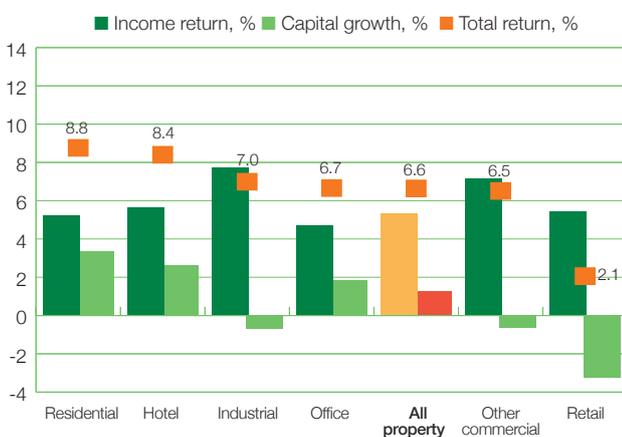
Total return on property investments amounted to 6.6 per cent in 2018

According to the KTI Property Index, property investments delivered a total return of 6.6 per cent in 2018. Income return decreased slightly from the previous year and stood at 5.3 per cent, while market values increased by 1.3 per cent on average. Residential properties were, again, the best performing sector in the investment market, supported by continuous capital growth, as well as by healthy income returns. Of the commercial properties, market values of offices increased, while those of retail and industrial properties continued to decline.

Transactions market expected to remain active

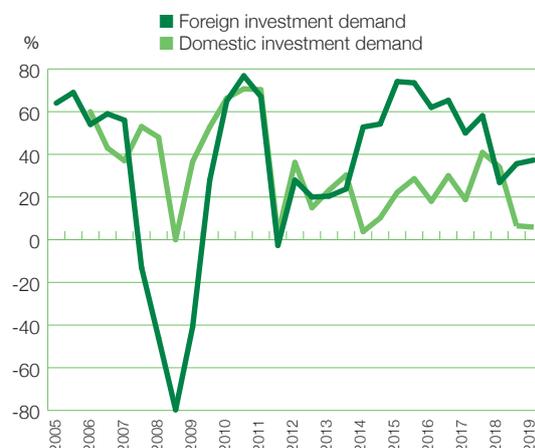
More than 50% of the respondents of the RAKLI-KTI Property Barometer expect foreign investment demand to continue increasing within the next year. Growth expectations have even strengthened slightly since the previous survey in late 2018. On the other hand, domestic investment demand is expected to remain stable.

Total returns by property sector in 2018



Source: KTI Index

Domestic and foreign investment demand, balance figures



Source: RAKLI-KTI Property Barometer

Office properties attract investors

Office properties accounted for 39% of the total transaction volume in 2018. The transaction of the Technopolis portfolio accounted for one quarter of the total volume, and the second largest transaction was carried out by Commerz Real, who acquired the Tripla Workery offices from YIT. Other significant office portfolio transactions were carried out by, for instance, AREIM, Goldman Sachs and Cromwell's REIT.

Otherwise, the total volume mainly consisted of transactions of large single office properties, the number of which was exceptionally high in 2018. Single office property transactions worth more than €100 million included, for instance, the acquisition of the Helsinki Court House by Hemsö, the sales of two office properties in Töölönlahti by Ilmarinen as well as the transactions of the Book House in the Helsinki CBD and the Urban Environment House in Kalasatama. In the first quarter of 2019, the largest office property transactions have been carried out by Nordea Life Assurance and BlackRock, who both increased their investments in the Helsinki CBD.

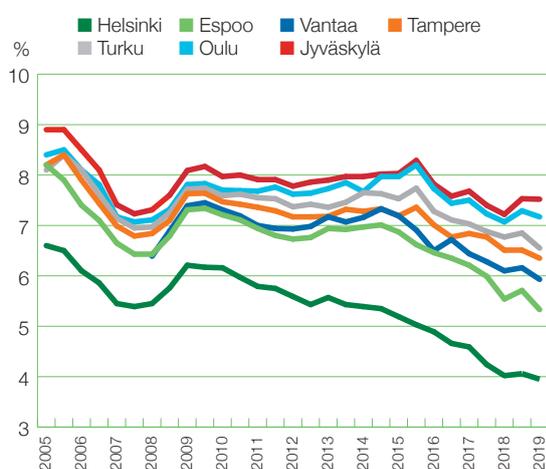
Investor interest increased in Tampere and Turku

Alongside the Helsinki metropolitan area, the Tampere and Turku offices have attracted investors in recent years. In Tampere, the Technopolis transaction increased the volume in 2018, and several domestic investors also increased their investments. New office space is

- Offices were the largest sector in the transaction market in 2018
- Record-low yields for best offices
- Conversion volumes are increasing
- Office rents continue to increase in the Helsinki CBD

currently being developed in the city centre by Sponda and Technopolis. In Turku, Hemsö made a significant share investment in Turku Technology Properties in early 2019. Also Aktia's fund, Kiolo and Quadoro Doric have recently invested in the Turku office market. After several years, new office space is being developed in Turku as the new head office for pension insurer Veritas is being constructed in Kupittaa. Also in Kupittaa, Turku Technology Properties is developing a new campus building for the University for Applied Sciences, which will also include office premises for other tenants. In Oulu, some 15,000 sqm, and in Jyväskylä, some 13,000 sqm of new office premises are also currently under construction.

Prime office yields in largest cities



Source: RAKLI-KTI Property Barometer

Office development volume remains high in HMA despite high vacancy rate

During the last decade, on average, some 76,000 sqm of new office premises have been completed annually in the Helsinki metropolitan area. In the first quarter of 2019, some 30,000 sqm were completed, and, at the end of the quarter, some 200,000 sqm were under construction. New construction is concentrated in Helsinki, where significant projects are underway, for instance, in Pasila, Kalasatama, Jätkäsaari and Telakkaranta.

According to Catella, the vacancy rate of offices in the Helsinki metropolitan area stood at some 13% at the end of 2018. Supported by the economic growth, the strengthening space demand has kept net take-up of offices positive in recent years. However, more efficient space usage, together with active new construction, has kept the amount of vacant space high.

New office development projects in the Helsinki metropolitan area rentable area



Source: KTI, RPT Docu Oy

Conversion volumes increasing

During the past decade, some 600,000 sqm of office space have been converted to some other use. The volumes of conversion projects have increased in recent years, and in 2018, the office stock reduction amounted to some 120,000 sqm. Two thirds of the total office stock reduction has been changed to residential use. In the best locations, offices are also being replaced by hotels, and in 2018, the hotel conversion volume amounted to some 50,000 sqm. The largest conversion projects are currently being carried out in the Helsinki central railway station, Sörnäinen, Vallila and Katajanokka.

Office rents continue to increase in the Helsinki CBD

The KTI rental index for the Helsinki CBD offices increased by 2.4 per cent between March 2018 and 2019. The growth slowed down slightly compared to the previous year's pace of 6-7 per cent. In the new agreements started within the past 6 months, office rents stood at €28-29 per sqm per month on average. In the RAKLI-KTI Property Barometer, prime rent for Helsinki CBD offices was quoted at almost €35 per sqm. Some 25% of the respondents stated that rents have increased significantly, and another 60% assessed that the increase has been moderate. Also in other major cities, rents have increased, according to the Barometer.

Vacancy rate expected to continue decreasing

In the KTI rental database, the occupancy rate for offices increased to some 87%, having stood at 83% in the previous year. Some 50% of the respondents in the RAKLI-KTI Property Barometer state that the office vacancy rate has decreased within the past six months in the Helsinki metropolitan area. Elsewhere in the country, development has been slightly less positive. The outlook for development remains positive, although slightly less so than for the past six months. The outlook for rents is levelling off compared to the previous survey, but remains positive for all major cities.

KTI Office Rent Index Helsinki CBD offices, new agreements

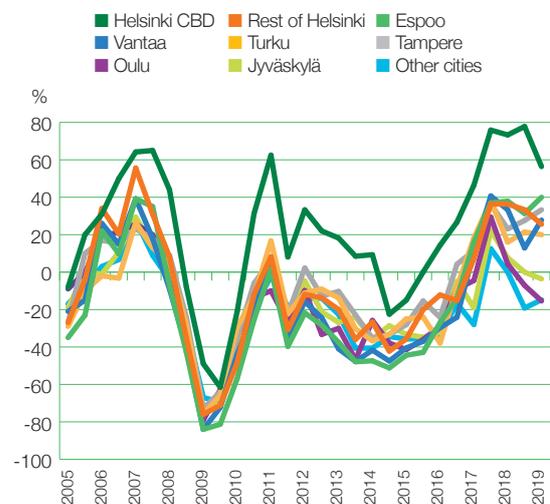


Source: KTI

Market values of offices increased in 2018

Supported by both rental growth and yield compression, market values of office properties have increased in the KTI Index in the past years. On the other hand, despite the increase in rents, income returns have declined as vacancy rates remain high and costs continue to increase. In the competitive rental markets, the demands of tenants have increased, which requires increased efforts in maintenance and tenant improvements. Increasing market values are also pressuring income return levels. In 2018, the average income return for offices stood clearly below 5 per cent.

Outlook for office rents Balance figures



Source: RAKLI-KTI Property Barometer

Retail property transaction volumes remain high

Retail property transaction volumes amounted to €2.2 billion in 2018. The largest transactions included the acquisition of the two Sirius funds by Cibus Nordic Real Estate and the purchase of the Itis shopping centre by Morgan Stanley's fund. These two transactions accounted for almost 60% of the year's total volume. After the establishment of the company in early 2018, Cibus has continued to expand its Finnish portfolio in several other acquisitions. Other Swedish investors active in the Finnish retail property investment market in 2018 include, for instance, NIAM and Trophi.

The largest property transaction in 2019 so far was carried out by pension insurer Elo, who acquired the 34 per cent share of shopping centre Jumbo from Unibail-Rodamco-Westfield for almost €250 million. Otherwise, the total retail property transaction volume in the first quarter of 2019, amounting to €410 million, consisted of mainly smallish single asset transactions.

Uncertainty in the retail markets pressures retail property returns

In the KTI Index, retail properties have shown the worst performance among the main property sectors for many years, pressured by negative capital growth. Market values of retail properties declined by some 3 per cent in 2018, and even the average annual capital growth of the past ten years is negative by some -1.5 per cent. In the retail property markets, Helsinki metropolitan area shopping centres have outperformed most other submarkets, but in 2018, even their market values declined. As investor interest has been mainly targeted at the most expensive core assets, income return has also decreased in recent years. Occupancy rates of retail properties have remained high, but in the whole country on average, rents have rather declined than increased.

Number of visitors in shopping centres declined slightly in 2018

According to the sales and visitors indices of KTI and the Finnish Council for Shopping Centers, the number of visitors in Finnish shopping centres decreased by some 1.6 per cent in 2018, while total sales increased by 1 per cent. In the last quarter of 2018, however, sales decreased by 1 per cent compared to the corresponding period in 2017. As in previous years, sales of fashion continued to decrease, while those of cafes and restaurants, beauty and health products and services, as well as leisure services increased. Total sales of daily goods and department stores remained stable. At the end of the year, occupancy rate of retail premises stood at 93 per cent in shopping centres in the whole country on average. In the Helsinki metropolitan area,

- Retail vacancy rates expected to increase
- Market values of retail properties continue to decline
- Sales of fashion and accessories decreasing in shopping centres

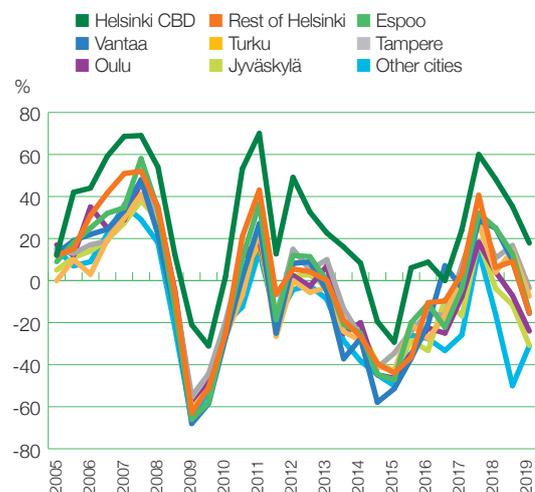
occupancy rate stood at almost 96 per cent, whereas outside the largest cities, more than 10 per cent of retail premises were vacant.

Retail rental market outlook turning negative

In the RAKLI-KTI Property Barometer, the prime rent for retail premises in the Helsinki CBD declined from €123 per sqm per month to €112 between October 2018 and April 2019. Less than one third of the respondents expect rents to increase within the next 6 months, and some 50% expect them to remain stable. In all other areas included in the survey, outlook for rents is negative.

Outlook for retail rents

Balance figures



Source: RAKLI-KTI Property Barometer

Expectations for vacancy rate development also turned negative in all areas.

Construction volumes slowing down

Some 200,000 sqm of new retail premises were under construction in the Helsinki metropolitan area at the end of the first quarter of 2019. The largest projects due for completion this year include the Mall of Tripla in Pasila and the third phase of shopping centre Ainoa in Tapiola. 2019 will be the third consecutive year with more than 100,000 sqm of new retail premises being completed. The shopping centre Hertsi in Herttoniemi is planned to be completed in 2020, and the estimated completion of Lippulaiva in Espoonlahti has been postponed to 2022. After this, retail property construction volumes are expected to slow down significantly. There are several large projects in the pipeline, but their starts are dependent on sufficient pre-letting.

After Tripla, the second largest retail development project is underway in Seinäjoki, where the Ideapark shopping centre is due for completion in the last quarter of 2019. In the main cities outside the Helsinki metropolitan area, retail construction is currently limited at some hyper/supermarket properties.

New retail development projects in the Helsinki metropolitan area rentable area



Source: KTI, RPT Docu Oy

Supply of rental residential apartments continues to increase

Strong demand for rental housing and investor interest towards the residential sector has, for its part, fueled residential construction in recent years. Residential construction starts in 2018 exceeded the previous year's volumes and amounted to over 46,000 dwellings. The majority of new construction is concentrated in the largest cities and in apartment buildings. The Helsinki metropolitan area accounted for 37% of all starts. The number of building permits decreased in 2018 from its record levels in the previous year, which indicates a slight decrease in construction volumes going forward.

According to KTI's property development follow-up, there were some 8,700 dwellings under construction in buildings targeted 100% for rental use in the Helsinki metropolitan area at the end of the first quarter of 2019. In 2018, some 4,300 dwellings, and in the first quarter of 2019, some 1,200 rental dwellings were completed.

Investor interest is expected to remain strong

In the RAKLI Rental residential barometer survey, carried out in March, all investor groups were expected to continue increasing their investments in residential properties. However, the interest is assessed to have

- Active new construction increases rental residential supply
- Rental growth boosts the investment performance of residential properties
- Increasing rents and high occupancy rates support income returns
- Rental growth accelerated in all major cities

slowed down slightly from the previous survey, carried out in late 2018. The most significant decline was recorded in the private investor sector, while foreign investor interest was expected to continue increasing.

Transaction activity remains high also in the residential sector

The total transaction volume of residential property portfolios amounted to €1.8 billion in 2018, which is the second highest annual volume after the €2.8 billion record from 2016. Some large investors continue to restructure their portfolios, and some residential property funds reached their termination, which contribute to the transaction activity.

In 2019, the largest residential property transaction so far was carried out by property developer YIT, who, together with some investment partners, established a new residential investment company, which acquired some 600 new dwellings from YIT for a transaction price of €100 million.

Foreign investor interest increasing

Foreign investors increased their investments in the Finnish residential property sector significantly in 2018. The attractiveness of the Finnish residential market is supported by advancing urbanization as well as a favorable legislative framework. Large portfolios were acquired by, for instance, Round Hill Capital, as well as funds managed by Morgan Stanley and Aberdeen Standard Investments. The German BVK also increased its Finnish portfolio. According to KTI estimates, foreign investors currently own some 11,000 rental residential dwellings in Finland.

Residential properties delivered the best returns in 2018

Supported by continuous capital growth, residential properties delivered total return of 8.8 per cent in 2018. After a two year break, residential properties outperformed all other property sectors in the investment market. The average annual returns on residential properties also exceed 8 per cent in both five and ten years' periods. Unlike in the commercial property market, income returns also remain healthy, supported by both rental growth and high occupancy rates. In the KTI Index, the average occupancy rate even increased slightly in 2018, and stood at nearly 97%.

Residential rents increased in all major cities

Supported by continuous urbanisation and a strengthening economy, an increase in demand for rental dwellings has exceeded that of supply. KTI Rental indices for new agreements show accelerating growth in all major cities. In the Helsinki metropolitan area, rents increased by 3.3 per cent on average, and in other major cities, by 4.1 per cent between March 2018 and 2019. In the Helsinki metropolitan area, the pace of rental growth was now highest since 2016, and in other major cities, since 2011.

In the Helsinki metropolitan area, rents increased the most in the best areas in Helsinki. Outside the metropolitan area, highest growth was recorded for Oulu, Tampere and Turku. Also in Jyväskylä and Lahti, where rents have decreased in recent years, indices now show positive development. Rental growth is supported by the improvement in the quality of supply, as well as

smaller average dwelling sizes, which increase rental levels by square metre.

Rents are expected to increase, but at a slightly slower pace

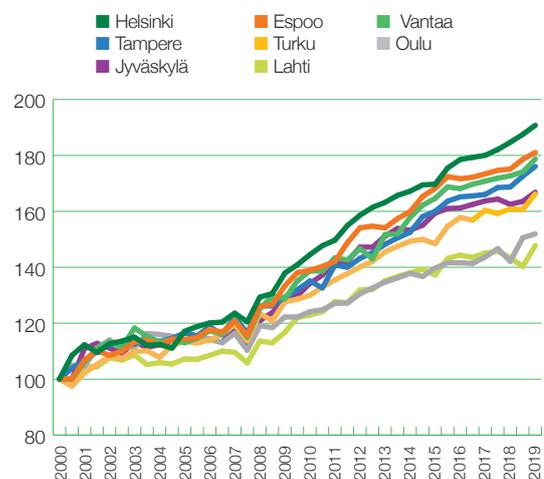
In the RAKLI Rental residential barometer, carried out in March, expectations for rental development remained positive, although slightly less so than in the previous survey. Rents for small apartments in the Helsinki metropolitan area, Tampere and Turku in particular, are expected to continue increasing. Also in Oulu, Jyväskylä and Kuopio, rents for small apartments are expected to increase, but for large apartments in these cities, outlook for rents is now negative.

Rental apartment development projects



Source: KTI, RPT Docu Oy

KTI Residential rent indices new agreements



Source: KTI

Biggest foreign investors in the Finnish residential property market

INVESTOR	NUMBER OF RENTAL APARTMENTS IN FINLAND
Round Hill Capital	3,500
Bayerische Versorgungskammer (BVK)	2,100
Fund managed by Morgan Stanley Real Estate Investing	1,600
NREP	1,400
Funds managed by AXA IM	1,200
Aberdeen Standard Pan-European Residential Property	800
Fund managed by Barings Real Estate Advisers	300

Source: KTI

Increasing volumes in other property sectors

Altogether, smaller property sectors account for some 20% of the total property investment market. Industrial, care and hotel properties' combined share amounted to some 17%, and they accounted for 15% of the total transaction volume in 2018. In addition, other sectors, such as educational and other public use properties account for some 2 per cent of the total market. Investor interest towards all these sectors has increased in recent years.

Logistics properties attract investors

The income returns of industrial properties – comprising warehouse, logistics and manufacturing properties – are higher than in other main sectors, but the capital growth of industrial properties has already been negative for 11 consecutive years. In the KTI Index, the total return of this sector amounted to 7.0 per cent in 2018.

Investors are mostly interested in modern logistics centres especially in Vantaa and the Northern Helsinki region. Consequently, the yields of modern logistics properties have decreased significantly. In the RAKLI-KTI Property Barometer, the average yield for good-quality industrial property in the Aviapolis district in Vantaa was quoted at 6.3 per cent, but the yields of the very best properties are already close to five per cent. In the KTI Index, the market values of logistics properties

- Industrial rents expected to increase
- Many large hotels under construction in Helsinki
- Care property transaction volume reached new record in 2018

increased by one per cent in 2018, but the capital growth for both warehouse and manufacturing properties was approximately three per cent negative.

Outlook for industrial properties stable

According to the respondents of the RAKLI-KTI Property Barometer, the rental market outlook for industrial properties is rather stable. More than 40% of the respondents estimate that the amount of vacant industrial space will decrease in the Helsinki metropolitan area during the next six months. More than one third of the respondents expect industrial rents to increase in

the Helsinki metropolitan area. In Tampere and Turku, more than one fourth of the respondents expect rents to increase.

The transaction volume for industrial properties amounted to €500 million in 2018. The largest transactions were single-asset warehouse and logistics property acquisitions in Vantaa and Espoo. In all of the largest transactions, the buyers were foreign investors.

Supply of hotel rooms increases in the largest cities

The market values of hotel properties have increased in the past couple of years, and in the KTI Index, hotel properties produced the highest total returns of all sectors in 2016 and 2017. Also in 2018, the market values of hotel properties increased by 2.6 per cent and the total return amounted to 8.4 per cent.

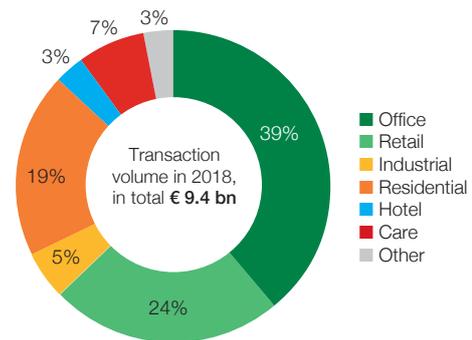
The supply of hotel rooms is increasing strongly, especially in Helsinki. The largest new hotel properties, comprising some 400-500 rooms, are under construction in the Pasila and Ruskeasu districts, as well as in the Helsinki central railway station. Also in Turku and Tampere there are significant new hotel property developments underway. In early 2019, a significant hotel property extension project, developed by Varma, was completed in the Pakkala district in Vantaa. Consequently, Break Sokos Hotel Flamingo became Finland's largest hotel with 540 hotel rooms.

The transaction volume for hotel properties has increased in recent years. Both in 2017 and 2018 the annual volume surpassed €200 million. Last year's volume amounted to €240 million, and it comprised about a dozen hotel property transactions. The largest seller in 2018 was CapMan's hotel property fund that sold the portfolio of six hotel properties to French investor Corum Asset Management for €72 million. In addition, CapMan's fund sold one hotel property in Vaasa to KPO-Kiinteistöt Oy.

Many investor groups are looking for care properties

The amount of care properties increases rapidly in the portfolios of professional property investors. At the end of 2018, the total value of care properties owned by professional property investors stood at some €3 billion, according to KTI estimate. Last year, the transaction

Transaction volume by sector in 2018



Source: KTI

volume for care properties amounted to record-high €630 million. The transactions have comprised both large property portfolios and single assets. The largest single-asset care property transaction in 2018 was the acquisition of Töölö hospital property by Veritas for €64 million.

Domestic property funds have been the most active buyers, but also institutions, property investment companies and foreign investors have increased their care property investments. The largest care property transaction of 2019 so far was completed in April, when Swedish SBB acquired a care property portfolio worth €142 million from eQ's special investment fund.

Municipalities have also sold their care properties recently. They have been acquired by professional property investors, but also care service providers, such as Attendo. The largest transaction in this segment was completed in early 2019, when the City of Turku sold care properties to the Swedish property investor Hemsö Fastighets AB for €130 million. The 80,000 sqm portfolio comprised five nursing home and two healthcare properties, as well as the city hospital area.





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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