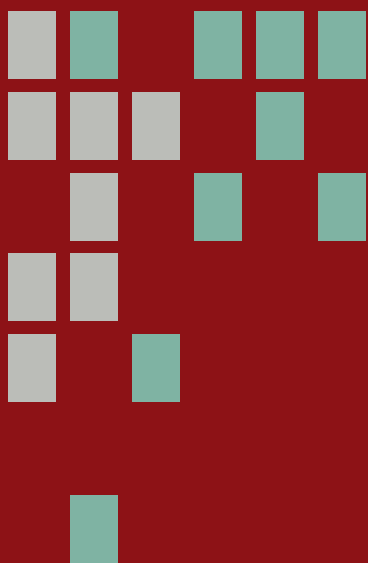


The Finnish Property Market 2007



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Preface

The Finnish Property Market 2007 aims to satisfy the information needs of international investors and other players interested in the Finnish property market. The report has been published annually since 2001.

The publication aims to cover the basic facts of the market structure and practices in the Finnish property market. More detailed information and analysis on the individual sub-markets for specific needs can also be provided by KTI Finland on request.

This publication is sponsored by 14 companies representing the Finnish property investment, development, management and finance markets. The sponsoring companies include Aberdeen Property Investors, Citycon, Eurohypo, HSH Nordbank, IVG Polar, NCC, Newsec, Ovenia, Real

Estate Training and Education Institute, Sato Corporation, SEB Merchant Banking, Skanska, Sponda and YIT. Also RAKLI – the Finnish Association for Property Owners and Construction Clients – and Greater Helsinki Promotion Ltd. have provided financial support for this report. KTI wishes to thank the sponsors for their support.

KTI Finland also publishes a monthly electronic newsletter, *Finnish Property Bulletin*, which covers the latest news from the Finnish property market. To order to receive this newsletter by e-mail, please subscribe at kti@kti.fi

The report will continue to be updated and published annually. It is also available in PDF format at www.kti.fi. We hope you find the information interesting.

Hanna Kaleva
KTI Finland

KTI Finland is an independent research organisation and service company providing information and research services for the Finnish real estate industry. KTI maintains extensive databases on returns, rents, transactions, operating costs and customer satisfaction measures in the Finnish property market. Based on these databases, various kinds of benchmarking and analysis services can be provided. For more information, please call +358 20 7430 430 or visit www.kti.fi

1. Basic facts about Finland

Geography	
Total area	338,000 square kilometres
Distances	1,160 km north to south 540 km east to west
Climate	Cold winters, warm summers Mean temperatures: July: +17°C February: -5.7°C
People	
Population	5.28 million Density: 17 inhabitants per sqm
Capital city	Helsinki, 565,000 inhabitants Helsinki region, 1.3 million inhabitants comprising Helsinki and 11 neighbouring municipalities - Espoo and Vantaa being the biggest
Other important cities	Espoo, 235,000 Tampere, 206,000 Vantaa, 190,000 Turku, 176,000 Oulu, 130,000 Lahti, 99,000 Kuopio, 91,000 Jyväskylä, 85,000
Languages	Two official languages: Finnish, spoken by 91.6% Swedish, spoken by 5.5%
Religions	Lutheran 83.1% Orthodox 1.1%
Economy	
GDP per capita	€ 29,964 (2005)
Most important exporting industries	Metal and engineering products Electronics and electrotechnical goods Forest industry products
Currency	Euro (since 2002)
History and governance	Independent democracy since 1917
	Member of the European Union since 1995
Head of State	President of Republic, Tarja Halonen (since 2000)
Parliament	One chamber, 200 members, elected for 4 years, election in March 2007



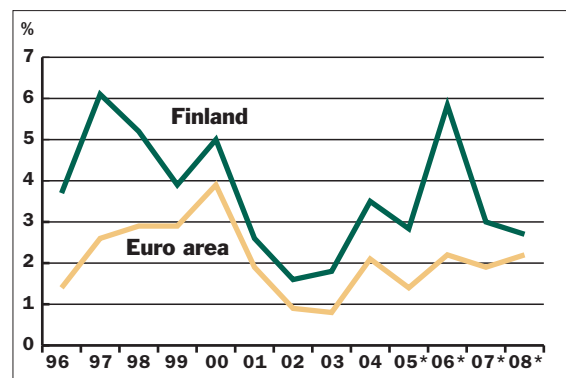
2. The Finnish economy

2.1 GDP growth exceeded expectations in 2006

Finland has had one of the best performing economies in the Eurozone since the latter part of the 1990s. Finland's recovery from the crisis of the early 1990s is regarded as a European success story, and was mostly based on the significant change in the structure of the Finnish economy, and the widening of its economic base. Electrotechnical industries in particular increased in importance and became a further bastion of the economy, in addition to the traditional metal and forestry industries. During the more difficult years around the turn of the millennium, the growth of private consumption maintained the economic growth, though at a somewhat lower level compared to the late 1990s.

According to preliminary statistics, the Finnish GDP grew by c.a. 5.9% in 2006 compared to the previous year, which clearly exceeds the forecasts made throughout the year. Part of the growth is explained by the labour dispute in the paper industry in 2005, which lowered the starting level. However, even taking this into account, the forecasts made in the first half of the year fluctuated mostly around 3.5 percent. The surprisingly high growth figures were supported by all major sectors of the economy: private consumption continued its strong growth, fixed investments exceeded expectations and – most of all – exports strengthened in all main industries,

GDP growth in Finland and in the Euro area

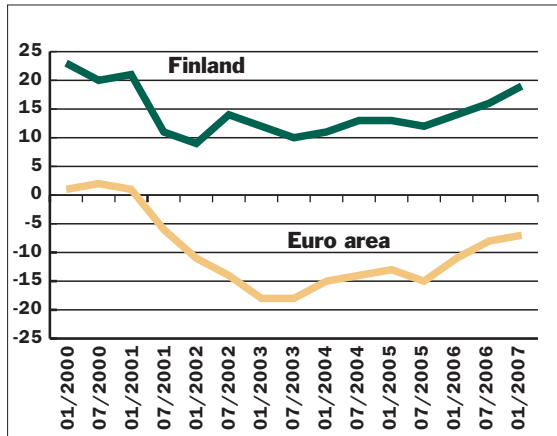


(Sources: Statistics Finland, Ministry of Finance, European Commission)

In 2007, the growth of the Finnish economy is expected to slow down mainly because of the downturn in the growth figures of the Eurozone, which still is the main reference market in terms of Finnish exports. However, the drop in growth figures is expected to be temporary, with increasing growth forecasted again for 2008.

Private consumption has been growing steadily during the past few years and is expected to continue its fairly strong growth in the future as well. Consumer confidence

Consumer confidence indicator



(Sources: Bank of Finland, European Commission)

"The Finnish economy grew by 5.9% in 2006"

has been strengthened by both strong income development and low interest rates. Consumer optimism is expected to remain strong in the next few years, thus fuelling the growth of the economy. In 2006, retail sales grew by 5.6% compared to 2005.

Consumer borrowing in Finnish households has been increasing during the past few years driven by decreasing interest rates and lengthening mortgage periods. The growth has been mostly driven by the increase in house prices and supported by strong consumer optimism and increased earnings. This development has fuelled discussions about potential risks of decreasing prices in the housing market and consequent problems related to mortgage payments. The increase in consumer borrowing has, however, developed well in line with the increase in earnings and real – not speculative – housing demand, and is not, therefore, expected to cause any problems in the future.

"The growth of the economy is expected to slow down slightly in 2007"

Inflation has remained at a very low level in Finland in recent years. Even the strong economic growth of 2006 did not fuel any unexpected increase in price levels. In terms of inflation, the temporary slowdown of the economy is, however, very welcome as it constrains pressures for wage and price

increases. In 2006, consumer prices increased by 1.6%, and inflation is expected to remain well below 2% in 2007.

As in other Nordic countries, the Finnish public sector provides comprehensive social security and extensive welfare services to all citizens. These services are financed by tax revenues, resulting in a high level of taxation. Social expenditures account for ca. 27% of GDP, which is close to the average of all EU member states. The ageing population currently creates increasing challenges for the maintenance of this welfare society.

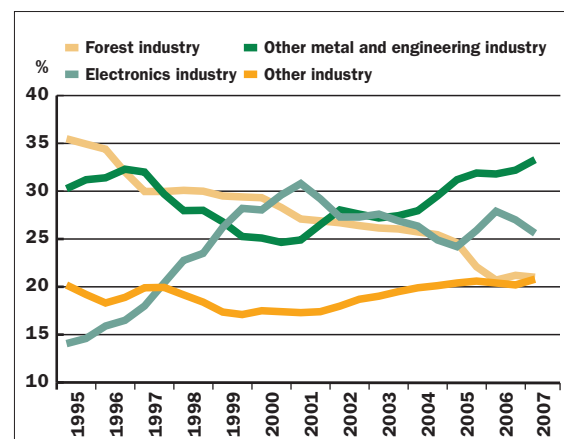
2.2 Finnish exports

The importance of foreign trade for the Finnish economy has increased significantly since the early 1990s. In 2006, the increase in exports played an important role in the strong performance of the economy. The volume of exports increased by a brisk 17% compared with the previous year. The growth was largest for metal and transport equipment industries as well as for chemical industries. The growth is expected to slow down in 2007 with forecasted growth figures of 4–5%.

In the past, exports of forestry and paper industries dominated Finnish exports. The share of these industries has gradually decreased, being now slightly above 20%. The other traditionally strong Finnish industrial sectors, i.e. metal and engineering industries, currently represent ca. one third of the volume of Finnish exports. The importance of the electrotechnical industries has increased rapidly since the 1990s, and these industries currently represent ca. 25% of total exports. The emergence of electrotechnical industries in particular has diversified the economic base of Finland, thus limiting the risks associated with being dependent on only one or two strong industries.

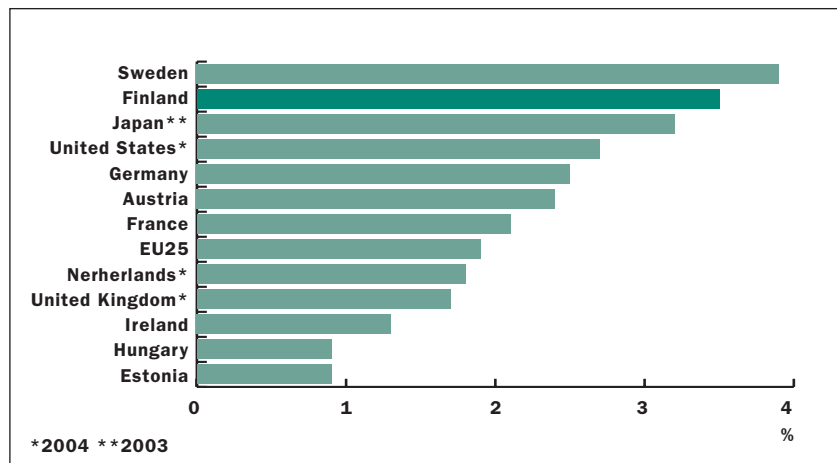
56.9% of Finnish exports goes to other EU countries. Germany, Russia and Sweden are currently the top-three destinations for Finnish exports, with equal volumes. In 2006, Finnish exports to Germany increased because of

Finland's exports by industry



(Sources: Bank of Finland, National Board of Customs)

GDP share of R&D expenditure in selected OECD countries in 2005



(Source: Eurostat)

"The volume of Finnish exports increased rapidly in 2006"

the recovery of the German economy. Exports to Russia, in particular, have increased rapidly in recent years. China's role as a trading partner of Finland has also rapidly increased in importance.

2.3 Employment has increased rapidly

The current government set a very ambitious target of cutting unemployment by half, and creating 100,000 jobs, during the electoral period 2003–2007. It was perceived that the target was a very difficult one to reach until the last two years, when employment started to grow at a brisk pace. By the end of 2006, the employment rate rose to 69.1%, and the number of new jobs grew to almost 100,000. The unemployment rate currently stands at 7.7%, and has thus fallen below the Eurozone average.

The Finnish labour market is now starting to face another problem caused by the mismatch between supply and demand in the labour market. The ageing population is one of the main reasons for this imbalance. Demand for educated personnel is increasing rapidly, whereas for uneducated people in regions suffering from negative migration it has become increasingly challenging to find a job. In addition, some service industries, e.g. welfare services and real estate services as well as some industry sectors - including construction industry - are starting to face a lack of skilled personnel, especially in growth centres.

2.4 Finland's international competitiveness

Finland has held one of the top positions in international competitiveness rankings during the past few years. In the World Economic Forum's Global Competitiveness Report for 2006–2007 Finland was ranked no. 2 after Switzerland. Finland's strong position is based on high scores for both primary and higher education, high-quality infrastructure and the supply of social services. Finland's institutional environment is ranked no. 1 in the world. Nonexistence of corruption and low business costs of crime and violence are

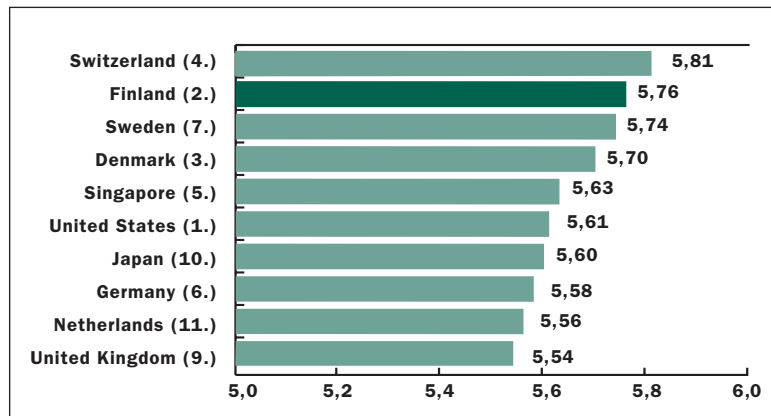
Key Figures - Finnish economy

	1999	2000	2001	2002	2003	2004	2005	2006**	2007**	2008**
GDP (change in vol)	3,4	5,0	2,6	1,6	1,8	3,7	2,9*	5,9	3,0	2,7
Inflation	1,2	3,4	2,6	1,6	0,9	0,2	0,9*	1,6	1,8	1,7
Unemployment rate	10,2	9,8	9,1	9,1	9,0	8,8	8,4	7,7	7,5	7,5
Interest rates										
3 months	3,0	4,4	4,3	3,3	2,3	2,1	2,2	3,1	3,8	3,8
10 years	4,7	5,5	5,0	5,0	4,1	4,1	3,4	3,8	3,7	3,7

(Sources: Bank of Finland, Statistics Finland, Ministry of Finance and Etlä.)

*Estimate, **Forecasts

The most competitive national economies of 2007 (ranking in 2006)



(Source: World Economic Forum)

“The Finnish property market scored high in international rankings”

regarded as major strengths of the business environment together with transparency and functionality of the legal framework. On the other hand, high levels of taxation as well as inflexibility and restrictiveness of labour market regulations are seen as the major disadvantages from the country's competitiveness point of view.

Finland's competitiveness and favourable business environment are also recognised in reports assessing and comparing global and European real estate markets. In

PriceWaterhouseCoopers' and Urban Land Institute's "Emerging Trends in Real Estate" 2006 report, Helsinki was ranked third place, but its relative position was weakened in 2007 because of strong development of some other European centers. Helsinki held the 6th place, with "modestly good" prospects for total return, rental markets' development and supply/demand balance. Risks associated with the Helsinki market are seen as moderately low. In Jones Lang LaSalle's "Global Transparency Index", which assesses the transparency of the real estate market's business environment, Finland was ranked relatively high, no. 11 among 56 countries. Finland's position was mainly weakened because of criteria regarding the young history of established property investment market information.



3. Institutional aspects of the Finnish property market

3.1 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 local courts. Transactions with real property are official legal acts, which have to be carried out according to a specified procedure. These transactions are public by nature, and are registered and published by the National Land Survey of Finland. In some cases defined in the legislation, the municipalities have a pre-emption right in real property transactions, even though they very seldom apply this right.

In practice, it is very common for property ownership to be organised through a limited company (a real estate/housing company) founded for the sole purpose of owning the property. In these cases, the legal owner of the real

estate is the limited company, which may have one or several shareholders. The shares may be connected to a specific apartment/amount of space in the property, entitling the shareholder to physical control and occupancy of these premises. These types of company are called mutual real estate companies ("keskinäinen kiinteistöyhtiö"). This form of ownership is commonly used in both residential and commercial properties.

"Property ownership is commonly organised through a limited company"

For mutual real estate companies in the housing sector ("asunto-osakeyhtiö"), there is a specific Housing Companies Act and Decree regulating their operation, which is 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, it is possible to choose whether to apply this Housing Companies Act or the normal legislation for limited companies (Osakeyhtiölaki) as the regulatory framework for the company.

In mutual real estate companies, rental agreements are made between the shareholder and the tenant, and the rental cash flow goes directly to the shareholder.

The mutual real estate or housing company is responsible for the management and upkeep of joint facilities, for which it collects a maintenance fee from the shareholders, the basis of which is defined in the company articles. The division of these responsibilities between the company and its shareholders may be specified in the company's articles. The company can also take out a loan, for example for renovation and modernisation, and use the building and real estate as collateral. Shareholders can use their shares in the company as collateral for their own loans.

"In mutual real estate companies, the shareholder collects rents from tenants"

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. The company collects rents from the occupiers, and with this income is responsible for covering maintenance and operating costs. The real estate company can pay out dividends to its shareholders.

Impact on market practices

Owning property through a mutual real estate company is a more flexible form of ownership, for example, in cases where the ownership of a building is divided between several owners. The transfer tax rate is also lower: 1.6% on the shares of the limited company versus 4% on the direct property. Transactions are also less complicated compared to direct ownership of real estate.

"A mutual real estate company is a flexible way to organise the ownership of a property"

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

A mutual real estate company is a flexible – and, therefore, very common – way to organise the ownership and management of a property. In practice, the majority of the commercial property transactions in the Finnish market are made by transacting the shares of real estate companies. These transactions are not public by nature, and it is therefore not easy to define the real market volumes.

"The legal framework is liberal"

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 agencies or lawyers when making transactions.

Transactions with housing or real estate company shares are very simple. As soon as transfer taxes have been settled, the purchaser can be registered as the owner of the shares in the real estate/housing 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 few restrictions.

3.2 Market practices: property investment and renting

Property investment

The recent development in the Finnish property markets: emergence of new players, increased internationalisation and professionalism and more sophisticated analysis have brought about new practices in property investment processes. It has also increased the need for specialist services in property transactions. Thorough due diligence processes as well as auction procedures have become standard approaches, especially in transactions of large assets or portfolios and where international players are involved. Among domestic investors, more traditional and less formal transaction procedures are still applied.

The role of the advisor or property agent in the investment process varies depending on the situation and type of company. In transactions of individual buildings, the agent's role is often restricted to initiating the process, especially if both parties are domestic. In large portfolio transactions, the parties typically use corporate finance and investment banking expertise. Due diligence (DD) services have rapidly increased in importance as foreign investors use more formal and stringent DD procedures. This has brought about a new approach to these processes, with typically several types of experts – e.g. legal, technical, financial, tax, etc. – working together. This has also affected domestic investors' analysis processes. Currently, a wide variety of these kinds of services are offered in the market.

Rental practices

Rental practices in the Finnish commercial property market are varied, and the liberal legislation regulating them gives the parties lots of freedom in agreeing on the terms.

A common term in Finnish lease agreements is "until further notice" – an indefinite contract is valid until either tenant or landlord wishes to terminate it after an agreed notice period, which might be e.g. 3, 6 or 12 months. These indefinite lease terms are especially popular in smaller office units, but are widely used in other property types as well.

The indefinite leases often last as long as both parties have an interest in adjusting the contract rent to correspond to the long-term rental value – and to tolerate temporary fluctuations in the market. This means that at the peak of the market tenants might pay less than the current rental value, whereas in the downturn they pay more. However, both parties normally accept this, and do not wish to exercise the break clause. The landlord wants to avoid periodic vacancy and the cost of searching for a new tenant. Meanwhile, the tenants are not willing to pay the cost of searching for new premises and the actual 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.

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. In the commercial property market, it is also common to agree on a fixed-term lease, which then continues automatically for an indefinite period until one of the parties wishes to terminate it.

The need for corporations to outsource operational property assets has brought innovations in traditional sale-and-leaseback agreements, which are mostly financial deals by nature. Large retail space agreements in single-tenant buildings often have lease terms of up to 20 years. Sometimes the requirements of the IFRS (International Financial Reporting Standards) set limits for the lease length, especially in cases where the tenant wants to avoid financial lease structures.

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 on this issue.

Rents are typically paid monthly in advance. Traditionally, rental agreements are for "gross rent", which includes net rent plus a service charge covering typical operating costs and minor repairs.¹ In single-tenant buildings, it is more common to apply net rents. In some specific property types, such as business parks, the lease agreements typically include a varying amount of business services offered to tenants.

Rents can be indexed freely. The Consumer Price Index (CPI) is the most commonly used index. Turnover-based rents are becoming more common in shopping centres, and they usually consist of a minimum base rent supplemented by an agreed share of turnover.

Typical leasing practices in Finland

Sector	Shopping Center	High street shops	Super-markets	Offices, multi-tenant	Offices, single-tenant	Industrial / logistics
Lease term	5-15	3-10 / until further notice	10-15	3-5 / until further notice	10-20	5-15
Basis for rent	Space area / turnover	Space area	Space area	Space area	Space area	Space area
Rental payments	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Indexation	CPI	CPI	CPI	CPI	CPI	CPI
Rent review	Annually	Annually	Annually	Annually	Annually	Annually
Internal repairs	Tenant / landlord	Tenant	Tenant	Tenant / landlord	Tenant	Tenant
External repairs	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant
Building insurance	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant
Property taxes	Landlord	Landlord	Tenant	Landlord	Tenant	Tenant

¹ Gross rents are where the land rent, insurance, property taxes and most service 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. When it comes to cleaning and electricity, the owner is responsible only for the communal parts of the building. Normally the tenant has their own energy and cleaning agreements regarding the space they use. The owner is also responsible for repair and replacement costs if caused by normal wear and tear.



3.3 Planning

Land use in Finland is regulated by the Land Use and Building Act, which came into force at the beginning of 2000. The system has three levels of land-use plans:

- regional land-use plan;
- local master plan; and
- local detailed plans.

The national-level principles of land use are reflected in the regional plans, which embrace structural, functional and environmental considerations. Regional plans are confirmed by the Ministry of the Environment. The local master plan is an instrument for guiding and co-ordinating land use at a general level. It is produced by local authorities, but the Regional Environmental Centre must be consulted in order to ensure that national targets are taken into account in local 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. It is also possible to agree on joint master plans between municipalities forming an homogenous urban area. These joint master plans require the approval of the Ministry of the Environment.

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. In practice, this new interactive process has been proven to lengthen the planning processes.

Building permits are approved by municipalities in Finland. 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 or change the use of the planned space can also be granted, although these are becoming increasingly difficult to obtain.

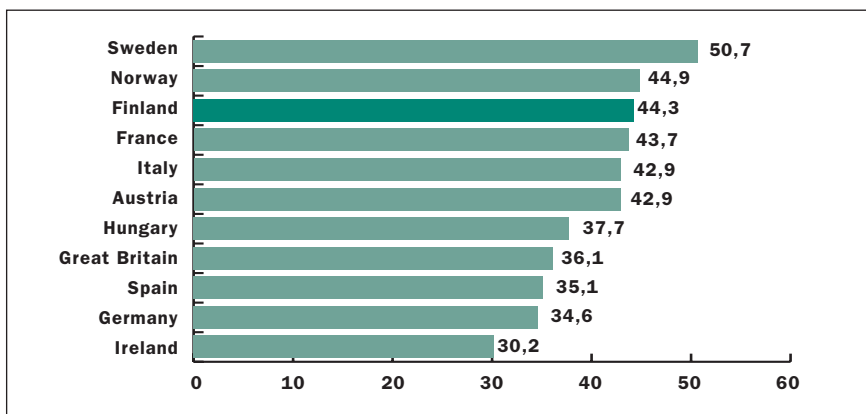
3.4 Taxation in Finland

Taxes in Finland are levied by the central government, municipalities and the church.

Individual taxpayers' income can be divided into two categories: earned income and capital gains. Income tax is paid to the state and the municipalities at a progressive tax rate. Capital gains tax is 28%.

In Finland, resident individuals are taxed on their worldwide income. Residents are taxed according to progressive tax rates for national tax purposes and flat rates for municipal ones.² The highest state tax rate is 32.5% of earned income. Municipal tax rates vary between 17% and 21%. The maximum marginal income tax rate for individuals

Taxes, as percentage of GDP in some OECD member countries in 2004



(Source: Statistics Finland)

² For tax purposes, persons present in Finland for a period of less than six months are considered non-residents. They pay tax in Finland only on income received from Finland. Finnish employers collect a 35% tax at source on wages, unless they have received a tax-at-source card instructing otherwise. The earned income of persons staying in Finland for more than six months is taxed according to the same rates as that of permanent residents of Finland. However, foreign "key employees" may qualify for a special tax at the flat rate of 35% during a 24-month period if they receive any Finnish-source income for duties requiring special expertise. The key employee must earn a regular cash salary of at least € 800 per month. According to the temporary Act, one further requirement is that the key employee must not have been a resident in Finland at any time during the five years preceding the year when they accepted employment in Finland. This temporary tax rule concerns employment contracts that started in 2004 and prior years, and it will continue to be in effect for employment contracts starting in 2005, 2006 and 2007.

depends on the municipality, and can rise to more than 60%. In addition to the actual taxes, there are some obligatory social security contributions that are paid by taxpayers.

The current government has taken serious actions to ease taxation on earned income. In 2005–2007 the effect of these actions will be worth €1.7 billion.

In the Finnish tax system, the taxes most relevant for property investment are property taxes, capital gains taxes and transfer taxes.

Tax on real property

Real property situated in Finland is subject to a real property tax, which 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. Tax rates in different municipalities vary between 0.5% and 1.0% of the taxable value per annum.

Tax rates for permanent residences are lower and vary between 0.22% and 0.5%.

Capital gains taxes

A tax reform, effective as of tax year 2005, affected corporate and capital gains taxation, which previously were both taxed at the rate of 29%. Since the beginning of 2005, any investment income (dividends, net rental income and capital gains) is taxed at a flat rate of 28%. Financial costs, such as interest expenses that are related to the rental income, are deductible.

Non-residents have a limited tax liability on capital gains in Finland. If they receive dividends, interests or royalties from Finland, the payer withholds a final source tax. For dividends, a 28% 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. Dividends of shares within investment portfolios are typically taxed at the 15% rate. 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 will be levied.

Finland applied the imputation system of dividends between 1990 and 2004. This system, called "avoir fiscal", prevented the double taxation of dividends. This system

was reformed as of 2005 and, currently, dividend income is partially double-taxed. 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. When the transaction is made by buying shares in a housing or real estate company, the transfer tax is 1.6% of the transfer price.³

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

Transfer tax is usually imposed on the purchaser.



³ No tax is imposed if a person aged between 18 and 39 acquires his 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.

Corporate taxation

As of 2005, the corporate tax rate in Finland is 26% of corporate profits.

Companies resident 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 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 financial assets. The expenses incurred in acquiring or maintaining a business are deductible. According to Finnish accounting rules, income is chargeable in the year of delivery (not payment) of goods or services.

Costs for acquiring fixed assets are deducted by depreciation. 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.

In real estate, fund structures targeted for domestic investors' 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. The interpretation of the tax status of a partnership might depend on the organisation and the type of activities of the fund, and therefore the tax authorities should be consulted when the fund is set up. However, Finnish partnership structures cannot be beneficially applied for funds targeted at foreign investors.



Value added tax

VAT is another tax relevant for property investment although transactions carry no VAT. In Finland, it is optional for the tenant to pay VAT on rental income. The standard VAT rate is 22%, which is calculated on the total charge for goods and services. There are also two reduced rates: 17%, which is applied to food and animal feed, and 8%, which is applied, e.g., to passenger transportation services. No VAT is charged on subscription fees for newspapers and periodicals.

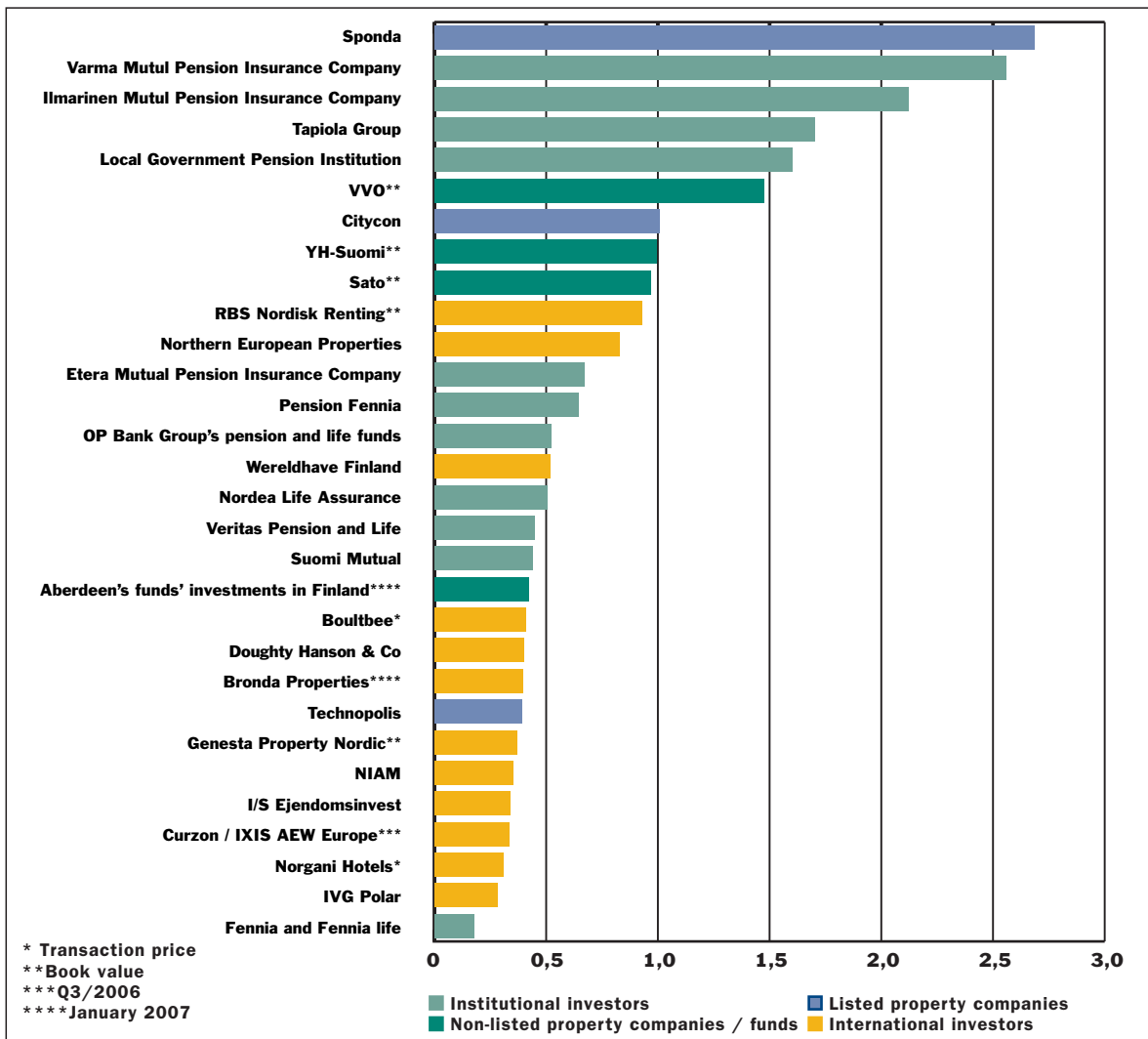
Central tax rates in Finland

	Tax rate	Note
Corporate tax rate	26%	
Capital gains tax rate	28%	Levied on profits from selling real property, buildings, securities such as housing company shares, shares in listed companies etc.
VAT	22%	Special rates for food (17%); medicine, books, transportation, cultural events, etc. (8%); and newspapers and periodicals (0%).
Tax on real property	0.5–1.0%	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, when the transfer tax is 1.6%.
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)



**Property Holdings of the Biggest Property Investors in Finland
(fair values of properties at the end of 2006, EUR billions)**



4. Structure and players in the Finnish property market

4.1 Ownership structure

The ownership structure of the Finnish real estate market has changed markedly during the past few years. Finnish pension funds still remain major players in the market, but the role of foreign investors in particular has increased rapidly since the entry of the first significant players in 2002. New domestic players – non-listed funds being the most significant group – have also entered the market, and property companies have increased their activities. With the entry of new players, both market liquidity and practices have developed rapidly.

Institutional investors

Institutional investors, pension insurance companies and pension funds, in particular, have traditionally played a dominant role in the Finnish property investment market. At the end of 2006 the total property investment of the Finnish pension institutions amounted to EUR 9 billion. Real estate's proportion of the total investment portfolio varies markedly between funds, and is currently ca. 9.6% on average. Typically, the proportion is higher in the smaller funds that are closely linked to one single company or industry, 13% on average. Pension insurance companies, which are the biggest players in the market, have an average proportion of property investments of 10.9% of the total portfolio. However, as their equities and bond portfolios tend to be internationally well diversified, property represents almost one third of their domestic investments.

Up until very recently, the property portfolios of pension insurance companies consisted solely of domestic investments in direct property. So far, foreign investments represent only a minor proportion of their portfolios, the total value being €0.5 billion at the end of 2006. The amount of commitments waiting for the capital to be called in is, however, many times higher than this.

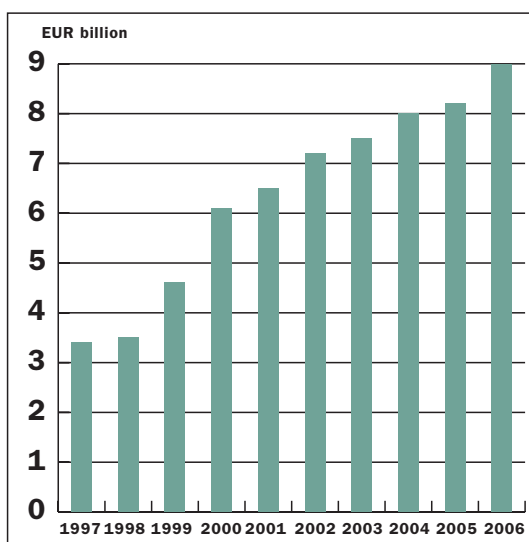
Varma pension insurance company is the biggest pension fund in Finland, and also a very significant player in the property market. It has continually increased its holdings, and only lost its number one position on the list of biggest property investors to Sponda by a narrow margin in 2006. The second biggest pension insurance company Ilmarinen has chosen a somewhat different strategy: it has decreased its direct holdings and is investing actively in indirect property both in Finland and abroad.

“Finnish institutions are allocating investments in indirect vehicles”

Also some other institutions have taken determined actions in order to reduce their domestic direct investments, and to allocate capital into indirect vehicles either in the Finnish market or abroad. Domestic pension institutions are major investors in the major Finnish non-listed funds, and some of them have also sold their direct assets to these funds. Recent transactions of this kind include e.g. the selling of Ilmarinen's € 280 million office portfolio to AREFF, a fund managed by Aberdeen Property Investors, where also the Danish ATP and Dutch ABP became investors – and made their first investments in Finland. Also Pension Fennia has sold some of its direct holdings with the intention of increasing investments in indirect vehicles. Of the major Finnish non-listed funds, both CapMan Real Estate Fund I and Icecapital's residential fund were established through acquiring assets from institutions, which also made investments and further commitments to these funds.

Traditionally, Finnish institutional investors have had large in-house property portfolio management teams. The organisation of these management functions has undergone a major change during the past few years. Many of these teams have now been outsourced to external service providers. The institutions have been pursuing slightly differing strategies in their organisation strategies: some of

Property investments of Finnish pension institutions



(Source: The Finnish Pension Alliance Tela)

them have outsourced their asset management functions on a quite wide scale, while others have recently taken increased responsibility and control over their tenant relationships. They also apply varying strategies in terms of the number of service providers, as some have entered into partnership-type relationships with one or only a few providers, while others have kept tighter control in their own hands. Some of the institutions – e.g. Pohjola and Tapiola – have also founded separate fund/asset management companies to manage property investment portfolios, and they also offer these services to other clients, e.g. non-listed funds offered to their investor clients.

All the real estate management agreements of Finnish institutional investors are non-discretionary by nature, and the investors keep control over all investment decisions. The reason for this is partly Finnish legislation, which requires that pension funds maintain these functions in-house.

Listed sector

There are currently five property companies listed on the main list of the Helsinki Stock Exchange: Citycon, Interavanti, Julius Tallberg Kiinteistöt, Sponda and Technopolis. The combined market value of these companies at the end of 2006 was € 2.2 billion, representing less than 1% of the market capitalisation of the Stock Exchange.

The share performance of the listed property companies was strong in 2006, with share price increases of e.g. 51% for Sponda, 57% for Citycon, and 56% for Technopolis. In total, the OMX Real Estate sector index showed a growth of 61% for 2006, compared with 24% for the whole OMX Helsinki CAP Index. The combined market value of property portfolios of Finnish listed companies stood at ca. € 4.6 billion at the end of 2006.

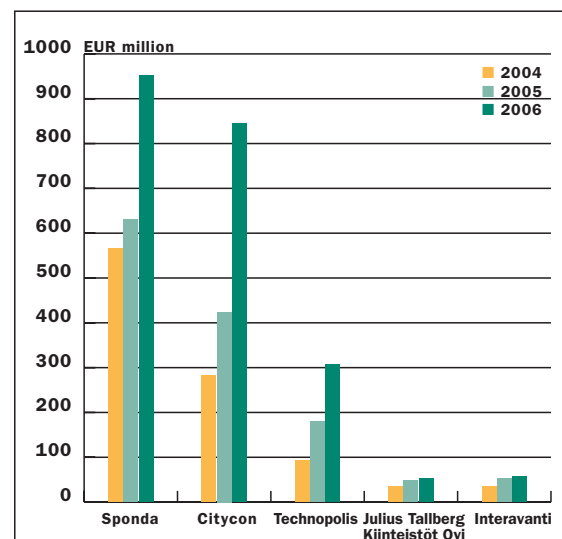


“The Finnish listed property sector performed strongly in 2006”

The biggest companies in particular have continued carrying out significant growth strategies during 2006. The major news in the Finnish listed property sector was the acquisition of the Kapiteeli portfolio from the Finnish state by Sponda in October. As a result of this acquisition, Sponda almost doubled the value of its property portfolio to ca. € 2.6 billion, and thus became the biggest property investor in Finland – although it then sold a sub-portfolio of this acquisition for ca. € 400 million in late February 2007. Sponda has also expanded through development, and is, for instance, developing a major logistics area in the new Vuosaari harbour area in Helsinki. Sponda’s international activities so far include one logistics centre in the St Petersburg area. Sponda has also started fund management activities, by offering non-listed investment opportunities for domestic investors as well as acting as co-investor and manager for the JER European fund.

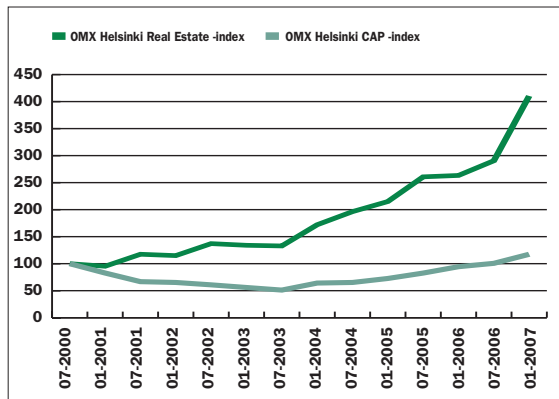
Citycon has also continued expansion both in Finland and in Sweden. At the same time, it has restructured its portfolio to better respond to its current strategy by selling smaller retail premises, e.g. a € 80 million portfolio to Kenmore Property in July. At the end of 2006, Citycon’s portfolio comprised 26 shopping centres and 52 retail buildings. Of the shopping centres, 19 are located in Finland, 5 in Sweden and one in both Estonia and Lithuania. During

Market capitalisations of the Finnish listed property companies



(Source: OMX Exchanges)

**OMX Helsinki CAP -index,
OMX Helsinki Real Estate -index**
(index 6/2000=100)



(Source: OMX Helsinki)

2006, its property portfolio increased by more than 50% mainly through acquisitions.

Technopolis, a company concentrating on technology centres, continued its expansion by acquiring technology centres from the cities of Tampere and Jyväskylä. It has also started expansion abroad by developing a technology centre in St Petersburg, and with further plans in other areas of Russia.

The Finnish property industry has been pleading for a tax-transparent property investment vehicle for several years now. Rapid international development – e.g. in France, UK, Germany and Italy – has increased the need for this kind of vehicle.

"The development of
Finnish REIT structure
is hoped to proceed in
early 2007"

The Property Fund Working Committee, set up by the Ministry of Finance in January 2004, presented its suggestions for developing the Finnish property market through property fund legislation to the Finnish Parliament in autumn 2006. These suggestions did not, however, include a REIT-type structure, but concentrated in mutual fund and partnership-type structures to be developed for collective property investment. These amendments and changes to the Finnish Property Fund Act (partnership) and Mutual Fund legislation were accepted by Parliament in February 2007, but are not expected to bring about any significant benefits for the real estate industry. Some smaller funds mainly targeted for private investors are being planned to be launched under this legislation.

Finnish property and financial market spokesmen have, however, continued their efforts to create a listable, tax-transparent, limited company type property investment vehicle for the Finnish market. In this respect, some progress was made in January 2007, when the Commerce Committee of the Parliament released a statement, where they insisted that further actions are needed in order to investigate the possibilities for a REIT-type vehicle to be launched in Finland. The statement emphasises the tax transparency of corporations investing in property - provided that they fulfil the restrictions set by law - as the specific topic to be investigated. The scope, objectives and schedule of these actions will probably be defined by the new Government, starting in spring 2007.

Non-listed property companies and funds

The biggest non-listed Finnish property companies and funds include VVO, YH, and Sato, all concentrating on residential markets, and also holding significant subsidised portfolios as well as major market portfolios. Sato and VVO, in particular, have been actively acquiring residential portfolios from institutional investors and thereby have increased their portfolios. Both Sato and VVO are also major developers in the housing market. VVO's portfolio currently consists of ca.

Finnish listed property companies

Name	Portfolio	Value of property portfolio, € million	Largest shareholders
Sponda plc	Office and logistics properties	2686.2	Finnish State, foreign investors
Citycon plc	Shopping centres, other retail premises	1447.9	Nominee registered (mostly foreign investors) 93%
Technopolis plc	Facilities for high-tech companies	392.2	Foreign investors, City of Oulu
Julius Tallberg Kiinteistöt plc	Commercial properties/development	129.7	Oy Julius Tallberg AB
Interavanti plc	Industrial, retail, office	16.2	Management

38,000 rental residential apartments, while Sato Corporation's current holdings comprise ca. 23,000 apartments. Sato's main owners include major institutions, i.e. Varma, Ilmarinen and life fund Suomi. Ilmarinen and Varma are also major shareholders in VVO.

Some major foreign investors have organised their Finnish activities in a Finnish corporation, some of which also have major organisations. These include e.g. IVG Polar, RBS Nordisk Renting and Northern European Properties.

The market for non-listed property funds started to emerge in Finland in 2005. Currently, there are five to six significant managers offering non-listed funds for mainly domestic institutional investors. In addition, some Finnish institutions have set up their own structures. Most of the non-listed funds are structured as partnerships, in which taxation is favourable from a domestic investor's point of view. Through these funds institutions can make use of debt capital, which is an important motivation for these investments – together with the possibility for third-party management.

The first significant non-listed property fund was launched in spring 2005 by CapMan Real Estate Oy with seven domestic institutions as investors. This fund, CapMan Real Estate Fund I, announced the selling of its property portfolio for a price of ca. € 380 million in December 2006, and is currently aiming at finding new assets to its portfolio, the target GAV of which is € 500 million. CapMan launched its second fund, CapMan Real Estate Fund II, in 2006. This fund concentrates on properties with development potential, mainly outside the Helsinki Region, and has an investment capacity of € 276 million.

Aberdeen Property Investors is another active player in the Finnish non-listed fund market. They launched their first fund, called Aberdeen Property Fund Finland I, in late 2005, and the fund's target GAV is € 150 million. It is currently the only open-ended fund with restricted redemption rights. The other Finnish fund managed by Aberdeen Property Investors is Aberdeen Real Estate Fund Finland I, launched in January 2007. The fund has three major institutions as investors – Ilmarinen, ATP and ABP – and it acquired a property portfolio worth € 280 million from Ilmarinen.

Iccapital Real Estate Management currently manages one fund investing in residential properties. The fund, Iccapital Housing Fund I, has a target GAV of € 200 million, and has four institutions as investors.

Auratum Real Estate Oy (AKR) is another fund manager, and was the first

to launch smaller private equity type funds for real estate investment starting in the early 2000s. AKR has also made successful exits by selling fund assets to both domestic and foreign investors. The investors in AKR funds include domestic institutions and private investors.

Pohjola Property Management Ltd, part of the OP Bank Group, is a company originally founded for the management of property investments of insurance company Pohjola and life fund Suomi. It currently also manages a non-listed fund called Real Estate Fund Finland I, which is marketed by OKO Asset Management Limited, and has 15 domestic institutions as investors. The fund's first closing was in late 2006, and its current investment capacity is € 150 million.

Sponda has also been active in the non-listed fund area. The investors in Sponda Real Estate Fund I include Sponda and seven domestic institutions, and it concentrates on logistics properties. Sponda is also a co-investor and manager of a fund set up together with JER Europe Property Fund II.

Other non-listed funds in the Finnish market include NV Kiinteistörahasto I (NV Property Fund I) set up by pension fund Varma, Nordea Life Insurance and Juhola Property Management. The State Pension Fund has also invested in the fund. The fund's target GAV is € 1 billion, and it made its first investments in 2006.

Starting from the beginning of 2007, Tapiola Group has transferred all its property asset management functions into a separate management company, Kiinteistö Tapiola Oy (Property Tapiola Ltd). In addition to managing the investments of the Tapiola Group, the company also plans to offer property funds to outside investors.

There are also some Finnish funds investing in the Baltic and Russian property markets. These funds include Evli Property Investments Baltic I, and Evli Russia I, both launched by Evli Bank and managed by Catella Property Group as well as Vicus Oy, launched by Conventum Corporate Finance and SRV.

International investors

The rapid internationalisation of the Finnish property market started in 2002 with the acquisition of the Itäkeskus shopping centre by Dutch listed property company, Wereldhave. Since then, more than 40 foreign investors have entered the market, including a diversified group

"The supply of non-listed funds has increased rapidly"

"Finnish funds investing in the Baltic and Russian markets"

"Foreign investors accounted for more than 50% of major transactions in 2006"



of players from practically all over the world. In 2006, some 20 new foreign players entered the Finnish market.

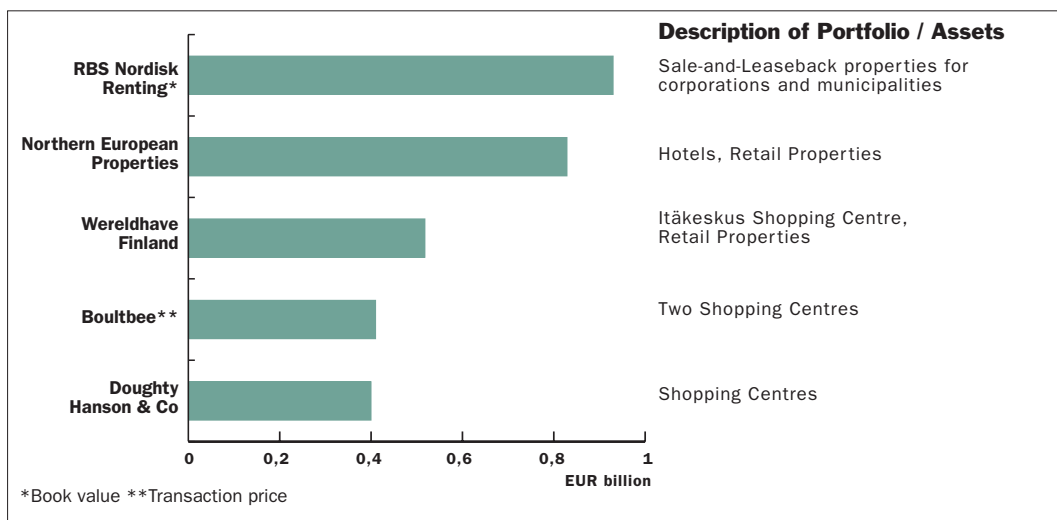
Currently, foreign players include listed property companies, non-listed property funds and major investment banks, as well as some opportunistic players. In total, the foreign investors have acquired more than €6.5 billion worth of Finnish properties so far. Interest from foreign investors, which started mainly from office and retail properties in the Helsinki metropolitan area, has now expanded to cover the whole country and all property sectors. During the past few years, Finland seems to have established its position on the international investors' investment agenda. So far, exits of international investors have been quite minor in terms of volume, but as the market becomes an established part of the investors' portfolios, more active restructuring is expected.

During 2006, the most important new foreign players in the market included Boulton, who, together with the Royal Bank of Scotland, acquired the Kamppi Shopping Centre for € 345 million, as well as the listed property company

Norgani, who acquired the hotel portfolio of Kapiteeli for ca. €300 million. In late 2006, Samson Properties and the Royal Bank of Scotland, together with a local partner Ajanta Oy, acquired the portfolio of CapMan Real Estate Fund I for the price of ca. €380 million. Other investors having made investments above €100 million include Schaumann Invest (DK), Kenmore Property Group (UK), NIAM Fund II (Swe), Delek Group (Israel) and Sveafastigheter (Swe). In 2006, retail properties and retail portfolios were especially favoured by foreign investors.

"More than 20 new foreign investors entered the Finnish market in 2006"

TOP 5 foreign investors in Finland



(Source:KTI)

Public sector

The public sector remains a very important player in the Finnish property market. The Finnish state has concentrated most of its property holdings in a government-owned enterprise called Senate Properties, whose task is to develop, manage and let the state's property holdings. It also sells or redevelops the properties no longer needed by state authorities. Senate is by far the largest property owner in Finland, with a diversified portfolio worth about €5.4 billion consisting of e.g. offices, university buildings, prisons and cultural buildings, as well as properties used by the Finnish Army.

The Finnish municipalities are typically highly significant players in regional markets, owning the majority of properties required for public administration and service provision: e.g. schools, nurseries and healthcare centres, as well as cultural buildings. It is estimated that municipalities currently own ca. 90% of all premises needed for their service provision. This makes e.g. the city of Helsinki one of the largest property owners in the whole country.

Real estate management has gone through considerable development in most municipalities in recent years. All major municipalities have centralised their real estate management and apply a market-oriented management policy, e.g. by charging internal rents from the occupiers.

“Finnish municipalities are significant property owners”

In recent years, there has been increasing interest in public-private partnership models in Finnish municipalities as well as in state organisations, in order to boost the efficiency of property finance, occupation and service provision. The most significant new concepts so far have been applied by the city of Espoo, which has been growing quickly in recent years and therefore has had to accommodate new residents in schools, nurseries and healthcare facilities. Interest has also increased in other cities in recent years, although not many significant deals have been made so far. Life-cycle service concepts are, however, actively developed and discussed by the Finnish construction and service companies in particular.

Corporations

Traditionally, property occupiers have had a significant role in the Finnish property market through large property portfolios. The majority of commercial property stock has traditionally been owner-occupied. The proportion of owner-occupancy is currently estimated to be somewhere below 60%, thus being close to the average European level.

The development of the property investment and finance market has opened up new possibilities for financing and restructuring the property holdings of corporations. Some companies have actively reduced their property portfolios. One of the most significant operations in this respect have been carried out by Nordea Bank, who in only couple of years transformed itself from being one of the biggest property owners/investors in the country to a retail bank only operating in rented facilities.



The two major Finnish retail chains, SOK and Kesko, are active players in the property market, and have adopted somewhat differing strategies in their property portfolio management. Kesko has been actively selling its properties to e.g. Citycon, Nordisk Renting and, most recently, to NIAM's fund. It has also entered into partnership-type relationships in its property management function with Finnish service providers. SOK, on the other hand, still mostly relies on its own investments, in key retail locations in particular. It also offers centralised property management services to retailers in the chain. In 2006, the third significant Finnish retailing company Tradeka Oy sold 270 of its outlet properties to Curzon/IXIS AEW's fund.

"Some major property
outsourcings were
carried out in 2006"

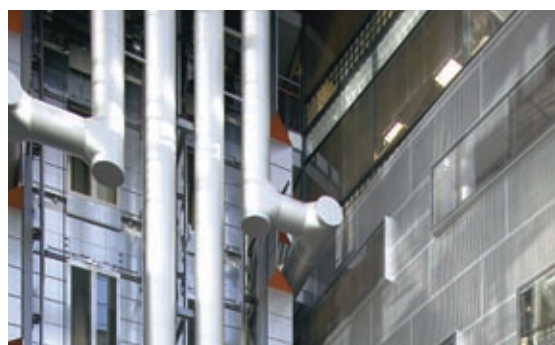
Finnish IT/telecommunications companies apply various strategies in their corporate real estate management. Corporate real estate has become an identified management function for these kinds of companies, and increased interest has been given to both the economic aspects of real estate as well as to the work environment's ability to support core business processes.

Sale-and-leaseback deals have become more common in the past few years. Recent refinancing/major lease transactions of head office type properties include e.g. the selling of UPM Kymmene head office to the Allianz Group, and Kemira's head office to the CapMan fund. IF Insurance's newly developed offices in Turku and Espoo are owned by RBS Nordisk Renting.

4.2 Real estate service sector

The Finnish real estate service sector has undergone a phase of rapid development during recent years. Currently, a wide variety of management, advisory, transaction and brokerage services are available in the market, thus also facilitating the market entry of new investors and occupiers.

As a consequence of the development in the market, several international/global service firms have shown increasing interest in the market and many of them have entered the market through acquisitions, alliances and franchise deals.



Real estate management services

Professional fund and asset management services have been widely available in the Finnish property market since the early 2000s. Before that, all major investors had large in-house real estate management teams, and managed, for instance, their tenant relationships themselves. The main drivers behind the development of the supply of management services include large investors' willingness to reorganise their management activities, foreign investors' market entry as well as increased interest in indirect investment.

The first international real estate management company to enter the Finnish market was Aberdeen Asset Management (currently Aberdeen Property Investors Finland Oy), who bought pension insurance company Ilmarinen's property management company in 2002. Aberdeen Property Investors offers a wide variety of fund, asset, property and advisory services. So far, it has launched two funds in Finland, and also manages Aberdeen's foreign funds' Finnish holdings. Aberdeen Property Investors currently has some €2.8 billion of property assets under management.

The Swedish-origin Newsec strengthened its position in Finland markedly in 2005 by acquiring the majority of Tallberg Toimitilajohto Oy (TTJ). Following this transaction, Newsec offers a wide spectrum of real estate management, advisory and analysis services for both property investors and corporations. Its major domestic investor clients include Fennia and Pension Fennia, who outsourced their property management arm to TTJ in 2003. Newsec also manages several foreign investors' portfolios in Finland, and offers facility management services to some major Finnish corporations.

Another major manager in Finland is Ovenia Oy, the majority of which is currently, after Sponda's acquisition of Kapiteeli, owned by Sponda plc. Ovenia concentrates on property management and administration services as well as advisory services. Ovenia's major clients include e.g. its founders Kapiteeli, Sampo and Varma, as well as a number of major property investors and corporations.

In 2005, following the launch of CapMan Real Estate Fund I, the private equity firm CapMan acquired the domestic real estate management company and consultant Realprojekti Oy. Realprojekti currently manages the CapMan Real Estate

Funds' portfolios, some shopping centres as well as some investment portfolios.

Of the major international management service companies, Cushman & Wakefield is currently setting up an office in Finland after having formerly been represented by a partner Yritysresurssit Oy.

A domestic major newcomer in the real estate management market is Realia Management. The company is part of the Realia Group, which was formed in 2006 through the merger of Huoneistokeskus and SKV, thus becoming a strong player in commercial agency and investment, valuation advisory and property management. Nation-wide network and special competence in residential property management are the strengths of the company. Realia Management is the Finnish partner of CB Richard Ellis in commercial property brokerage and valuation services.

YIT, the major Finnish construction company, is also increasingly concentrating on property management services through its Building Systems and Services arm. YIT has an extensive organisation, and – unlike most other management service companies – it also provides the services mostly by its own personnel. YIT's main clients in property management are domestic institutions. It also offer facilities management services to corporations, where its most recent operation was the acquisition of Finnair Facilities Management.

Other domestic players offering asset and property management services include e.g. KJ-Kiinteistöjohto, REIM Group and Kiinteistömanagement J. Juhola Oy.

The market for facilities management services has increased rapidly in Finland, and growth is expected to continue in the future. The growth has been fuelled by a couple of major outsourcing decisions by large occupiers. The provision of FM services has mainly emerged from traditional property management, cleaning or catering companies, which have extended their service provision towards more occupier-oriented services. Some of the major managers also offer facilities management services.

Some of the major service providers in the facilities management service market are of Finnish origin (e.g. YIT, Lassila & Tikanoja, SOL) while others are part of an international company (e.g. ISS, Johnson Controls). In some cases, FM service providers have entered the Finnish market by following their major clients (e.g. Johnson Controls).

The biggest player in the property service market is ISS Services, which, after the acquisition of Engel in 2004, currently employs more than 13,000 people. ISS offers a wide range of services from development consultancy to workplace services and from environmental services to cleaning.

Advisory, valuation and transaction services

The supply of different types of advisory services has increased rapidly in recent years because of both domestic players' need for more sophisticated analysis and the market entry of new players, international investors in particular. Advisory services are offered by both management companies and by some specialist service providers. Developments in the market have encouraged new companies to enter the market, where a colourful mixture of small domestic entrepreneurial firms and big global companies can be found.

Of the management companies, Aberdeen Property Investors Finland, Newsec, and Realia Group, for example, also offer valuation, advisory and transaction services.

Catella Property Group is a major player in valuation, brokerage and market research services in the Finnish commercial property market. Catella also provides corporate finance services.

DTZ has been present in Finland since the beginning of 2004 through its co-operation with two Finnish compa-

nies: a brokerage/advisory company Kauppahuone DJP, and a valuation company Estimatum. Another international player entered the market in 2005, when GVA opened an office in Helsinki. The GVA team currently consists of 12 professionals, and it represents both Finnish and foreign investors and corporations.

Cushman & Wakefield is currently enhancing its position in Finland by opening its own office. CB Richard Ellis is represented in Finland through a co-operation agreement with Realia Group.

Moreover, the global business consultancy firms, e.g. KPMG and PricewaterhouseCoopers, are strengthening their real estate specific services in Finland.

Financing services

Property financing has traditionally been organised via Finnish banks. Major Finnish banks include Nordea, OP Bank Group (Osuuspankkiryhmä) and Sampo, which was recently acquired by Danske Bank. In the past, all these banks had an extensive interest in the property market via their significant property holdings. Currently, only OP Bank Group holds significant property ownings.

In recent years, new players have also entered the property finance market. International banks specialising in property finance currently active in Finland include e.g. Aareal Bank, Hypo Real Estate, Eurohypo and HSH Nordbank. SEB Merchant Banking and the Royal Bank of Scotland are also significant players in this market. Together

"The market for management services is expanding"

with the market entry of new players, the range and variety of financial products have also increased rapidly.

Property development

A typical feature of the Finnish property market is that there are not many players specialising solely in property development. Construction companies and owner-occupiers have traditionally been active players in the property development business. Major construction companies involved in property development include NCC, Skanska and YIT, which have also all been active in developing life-cycle service chains for property management. The largest Finnish construction company, YIT, is currently classified as a service company on the Stock Exchange as its share of revenues from property-related services has increased rapidly. Other examples of large construction companies also active in property development include SRV, Palmberg and Hartela.

The property development market has also interested some specialist international players who have brought new practices to the Finnish market. One example of these is the Danish TK Development.

"Finnish construction companies often act as developers"

Some owner-occupiers, large retailers in particular, are significant property developers. Large owner-occupiers typically have strong bargaining power with local authorities in planning issues, as they are an important source of tax revenue for municipalities.

Institutional investors have traditionally had quite conservative strategies concerning property development. Their final investment decisions have often been made only when the majority of the premises are pre-let. However, especially in large development projects, it has become more common for institutional investors to create a pool to retain the development profit or even become involved at a very early stage of the process. The need for more continuous co-operation with developers and earlier commitment has also been brought about by increased competition for the best assets. Therefore, some institutions currently commit themselves to projects at fairly early stages.

Real estate investment companies are often proactive developers, and they have also increased their development activities in recent years. Close interaction with clients and customer-oriented real estate management are naturally their

core competencies, giving them a competitive edge in the development process. Sponda, Citycon and Technopolis in particular are very active players in property development in their own core areas. In the residential market, a significant proportion of Sato and VVO's turnover is acquired through property development. Sato in particular has recently become more active in acquiring land and co-operating with municipalities and other investors in its development.

Companies offering sale-and-leaseback type of deals, e.g. RBS Nordisk Renting, typically co-operate closely with tenants and act as developers, especially in large, long-term projects, thus creating partnerships that add value to all parties.

The increasing challenge of redeveloping old properties has brought some new players into the market which specialise in old commercial properties, e.g. industrial areas. One example of this type of company is Renor Oy.

Development consultants have increased their role in the market in recent years. Some service providers have added development consultancy to their range of services. In retail development in particular, the role of consultants is often significant in creating the concept and co-operation between all parties.

In order to obtain favourable plans and building permits, developers co-operate with local authorities, which have a monopoly on planning in urban areas. The local authorities can have a dual role in the process as they often own a great deal of land, which makes them a significant player in the market.

4.3 Property investment market in 2007

The volume of investment transactions in the Finnish property market has grown significantly in the past few years because of active restructuring of the portfolios, major property outsourcings and, in particular, due to a rapid increase in foreign investment.

The total size of the Finnish property investment market is currently estimated to amount to ca. €28–30 billion. The market size has gradually increased because of new stock coming to the market both through property outsourcings by corporations as well as new development and ending up in professional investors' portfolios.

The volume of major transactions more than doubled in 2006 compared to the previous year, and amounted to € 5.6 billion. Some 54% of this was made by foreign investors. The total volume was increased by some major portfolio deals carried out during 2006, of which the € 1.3 billion Kapiteeli deal was the biggest by far.

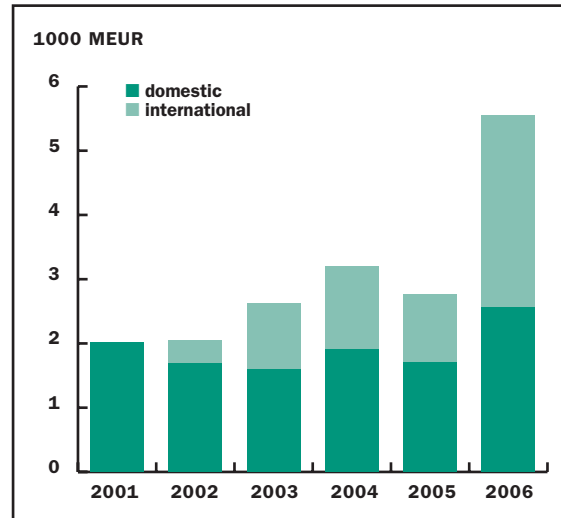
"The volume of major transactions doubled in 2006"

The increased investment demand created further downward pressures on yields. Falling yields directed some investors' interest in higher yielding properties outside the Helsinki metropolitan area, and, measured by the number of deals, they accounted for two thirds of all transactions. Measured by the volume of transactions, the Helsinki metropolitan area still dominated the market with a 54% share.

Compared with other main asset classes, property has been offering stable total returns during the past few years. In 2006, the total return on the Finnish property market increased to 10.1, compared with 7.5% in 2005. Of this, capital growth accounted for 3.1%, which showed a clear increase compared with the previous year. Capital growth was supported by decreasing yields in particular. Income return on all property amounted to 6.9%, which was a slightly lower level than in 2005.

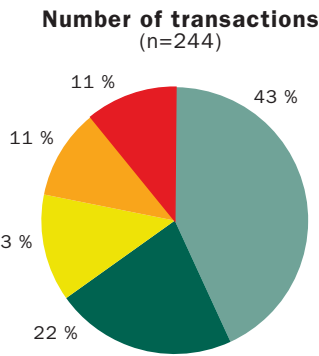
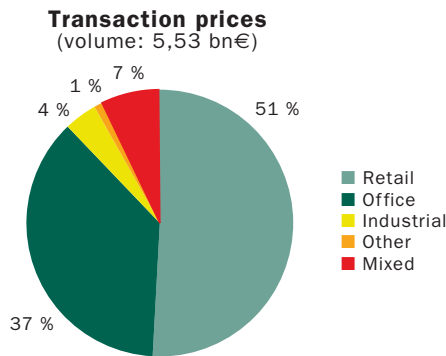
The Finnish equities market continued its strong performance in 2006, with a total return of 29.9%. The listed property sector outperformed the overall equities market with a clear margin, offering a total return of 62.6%. The bond market was clearly outperformed by both equities and property markets, and only produced a total return of 1.1%.

Transactions Volume in the Finnish Commercial Property Market, 2001-2006



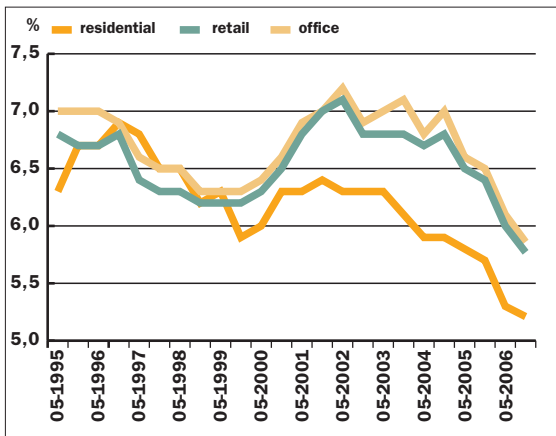
(Source: KTI)

Property transactions by sector in 2006



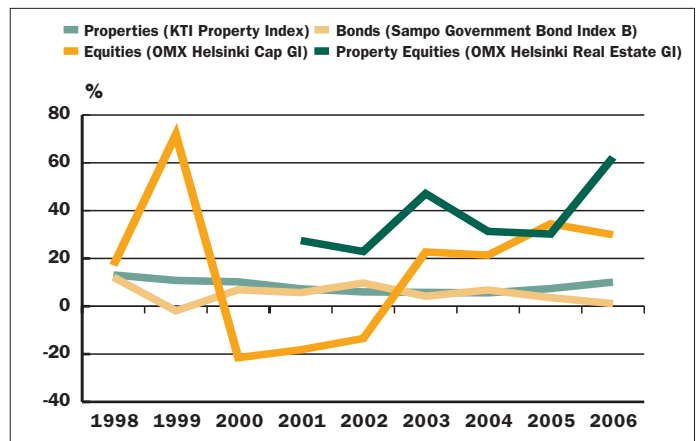
(Source: KTI)

Prime Property Yields in Helsinki CBD



(Source: KTI's barometre survey)

Total returns of different asset classes 1998-2006



(Sources: OMX, Sampo, KTI)

Major transactions in Finland

Property Company / Portfolio / Building	Type of use	Time	Location	Price MEUR	Purchaser	Seller
Kapiteeli Oyj	many	Q4 / 2006	many	1300	Sponda Oyj	Finnish Government
Diversified Property Portfolio	many	Q1 / 2007	many	402	Whitehall Street Real Estate Limited and Niam Nordic Investment Fund III	Sponda Oyj
Cap Man Real Estate I Fund	many	Q4 / 2006	Helsinki region	377.5	Samson Properties Ltd (IL), RBS and Ajanta Oy	CapMan Real Estate I Fund
Kamppi Shopping Center	retail	Q2 / 2006	Helsinki	345	Boulton Construction (80%) & The Royal Bank of Scotland (20%)	SRV Group (30%) & Pontos (70%)
Kapiteeli Hotel portfolio, 15 premises	hotel	Q2 / 2006	many	306	Norgani Hotels ASA	Kapiteeli Oyj
AREFF (1st investment)	many	Q1 / 2007	the biggest cities	280	Aberdeen Real Estate Fund Finland (AREFF)	Ilmarinen Mutual Pension Insurance Company
Kesko Retail portfolio, 92 premises	retail	Q1 / 2006	many	200 >	Niam Retail Holding Finland AB (Niam Fund III & Crown Asset Management)	Kesko & Kesko Pension Fund
28 properties	retail, logistics	Q4 / 2006	many	150	Schaumann Investment Oy	Maskun Kalustetalo Oy and its managing director Toivo Sukari, Joensuun Kauppa ja Kone Oy, Suomen Liikekiinteistöt SLK Oy and Permon Oy
73 service stations	retail	Q4 / 2006	many	118	Delek Real Estate Ltd and Princeton Investments Ltd	Neste Oil
900 apartments	residential	Q2 / 2006	Helsinki region	100	Iccapital Housing Fund I Ky	Institutional investors
Shopping Center Columbus	retail	Q2 / 2006	Helsinki	80.1	Citycon Oyj	Paulig Oy
7 properties	retail	Q1 / 2007	Helsinki, Espoo	77	Teesland iOG	Pension-Fennia
UPM Head Office, Eteläesplanadi 2	office	Q2 / 2006	Helsinki	77	Allianz Lebensversicherungs AG	UPM-Kymmene Oy
Retail portfolio, 116 retail premises	retail	Q2 / 2006	many	74	Sveafastigheter Fund II & HGR Property Partners (LS Project 3 VA Oy)	Varma Mutual Pension Insurance Company
75 retail / industrial units	retail, industrial	Q3 / 2006	South-West Finland	73.8	Kenmore Property Group Limited	Citycon Oyj

(Source: KTI)

5. Property sectors – market structure and practices

5.1 The office market

Players

Major players in the Finnish office market include domestic institutions, property companies and, increasingly, different types of foreign funds. Offices have been popular investment targets because of their perceived low risks and relatively consistent demand for office premises in the space market. Offices have an especially dominant role in institutions' portfolios. This is illustrated by, for example, the overriding proportion of offices included in the KTI Index, which was 53 % in 2006.

There are three main types of office property on the market, the investor profiles of which vary slightly between subsectors. The largest proportion of investable stock is multi-tenant office buildings. The second largest is headquarter-type buildings, and the third category is business park type serviced offices. Large institutions in particular tend to invest in all these office property types.

The increase of business park supply has been an emerging trend in the Helsinki metropolitan area in recent years. Modern office centres have been developed or are in the pipeline in many areas, in Espoo and Vantaa in particular. Good traffic connections are one of the main drivers of the location decisions for business parks. This has affected the market structure by scattering the office areas over several locations, thus affecting the city centre's traditionally dominant position in the office market. Construction companies have been the most active players in developing business parks and their service concepts. In addition to favourable location and traffic connections, the competitive position of business park concepts relies on modern and well-equipped premises as well as a variety of business services.

"New business parks are being developed actively"

Of the listed property companies, Sponda is a major office investor, whose position was enhanced further by the acquisition of Kapiteeli. Technopolis specialises in technology centres and emphasises the importance of services offered to tenants.

Foreign investors are also interested in Finnish offices, and have been investing in all three of the above-mentioned

different types of offices. German and Swedish funds in particular have made some office investments in the Helsinki area during the past year, both in new projects as well as in existing properties. The lack of suitable investment products combined with the downward pressure on yields seems to be the major obstacle restricting the increase in office investment volumes.

Owner-occupancy still exists in the office market, especially with regards to headquarters, which are often owned directly or through corporations' own private pension funds. However, long-term sale-and-leaseback agreements have become more common in recent years in this type of office. Pension funds and some property companies, e.g. RBS Nordisk Renting in particular, have been investors in these projects. Public sector organisations are major players in the office market, owning the majority of the administrative buildings, thus making municipalities important players in the regional markets. Senate Properties and some municipalities also rent out a significant number of office premises.

Rental practices

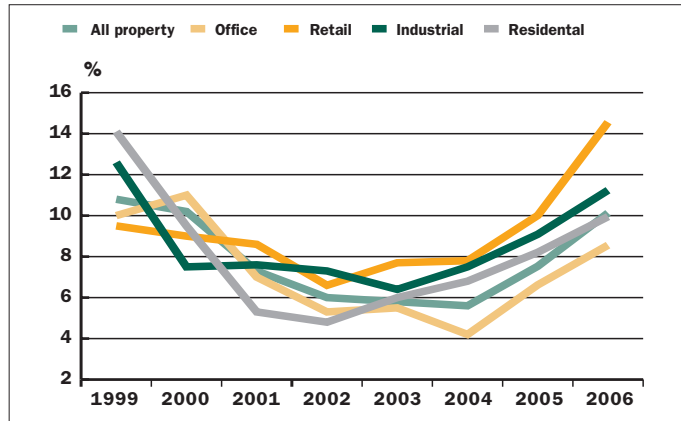
The emergence of increasingly multi-faceted office stock has brought about new and varying market practices in the office market. The terms of rental agreements vary significantly between different office sub-categories in the market.

In multi-tenant office buildings, rents are typically gross and the indefinite lease term is commonly applied. Active market players, such as property companies, favour gross rents and compete with their effective service management. Measured by the amount of agreements, gross rental agreements comprise over 90% of the ca. 25,000 office contracts included in KTI's rental database. Measured by value, their proportion is about 70%.

"Gross rents are commonly applied in multi-tenant office buildings"

Indefinite leases are favourable for the user as they can be terminated easily if there are changes in the need for premises or if rents rise too rapidly. On the other hand, indefinite leases have contributed to more cautious rental policy and decreased volatility of rents. Measured by the number of agreements, some two-thirds of office lease agreements registered in the KTI rental database are indefinite. Measured by the rental cash flow, their

Total returns by property sector 1999-2006



(Source: KTI)

proportion is significantly lower – less than 50% – as in larger units it is more common to have fixed – and usually quite long – lease terms.

Another Finnish peculiarity, which is typical for the office market, is contracts that are in principle indefinite, but include a break clause, which entitles parties to terminate the agreement on a regular basis, e.g. annually. This means a secured 12-month income for the investor. This type of contract comprises ca. 20% of the office contracts on KTI's rental database.

In single-tenant large office buildings, net rents are more commonly applied. Rental periods are also typically fixed and relatively long, ca. 15 years, especially in new buildings that have been tailored to the needs of the occupier, as well as in sale-and-leaseback agreements. These types of buildings and agreements are favoured by pension funds because of their low risk and easier management. Some other investors, such as RBS Nordisk Renting in particular, also offer this kind of agreement to their tenants.

Business parks compete with flexible agreements and extensive service supply. Service options comprise typical business services, such as reception, security, cleaning, catering, postal services and meeting facilities. In some

cases, managers also offer or act as an intermediary for other services such as health clubs and travel services. Business park rents typically consist of the actual rent plus a service charge. Rental agreements are normally fixed term for three to five years. Business-to-business service companies and ICT companies are typical users of business parks.

The office market in 2007

The demand for office space started to increase during 2005 after a couple of years' declining trend. This halted the drop in rental levels and led to an improvement in the vacancy rate. However, the differences between submarkets and even individual buildings are significant. Helsinki CBD retains its strong position as the no. 1 office area in Finland, and that is also where market rents have been showing the strongest development.

Occupiers' interest is currently directed towards modern, technically well-equipped and functionally efficient office space. Therefore, newly developed modernised offices attract tenants. Rents for new, modern premises in the best locations have increased, and the vacancy rate for this kind of office space is currently very low.

"There was a substantial increase in shopping centre supply in 2005"



"Modern offices attract tenants"

Part of the older building stock is facing problems in terms of space demand, in some suburban markets in particular. Challenges are often biggest for buildings from the 1970–1980s which have low flexibility, old-fashioned configuration and amenities. With this kind of stock, rents have mostly been stable and vacancy remains a problem in many areas. In some cases, the future of these premises for office use might even be questionable and, therefore, some investors are currently redeveloping former office buildings into e.g. residential or hotel use. In some cases, however, location restricts these redevelopment opportunities.

Occupiers' developing needs are an increasingly important driver for the office market's performance. The increasing differentiation between grade A and grade B/C properties increases the differences in returns and risks.

Because of the healthy demand for modern premises in particular, office development has been active in recent years. During 2006, some 110,000 sqm of new office space was completed in the Helsinki metropolitan area, and ca. 250,000 sqm is currently under construction, most of which is due for completion in 2007 and 2008. Most of these premises have been pre-let before construction starts. However, despite increasing office employment and space demand, new stock coming to the market has an increasing impact on vacancy rates. Tenants moving to new, efficient offices often leave behind old-fashioned premises, which might not satisfy occupiers' needs and remain, therefore, vacant, at least temporarily.

Investment demand for offices has remained strong, backed by the inflow of capital in the market from both domestic and foreign investors. Offices accounted for nearly 40% of the total volume of transactions in 2006. Yields for the best offices have been decreasing steadily, but they still remain higher than in most other European markets. This premium keeps attracting new foreign investors to the market.

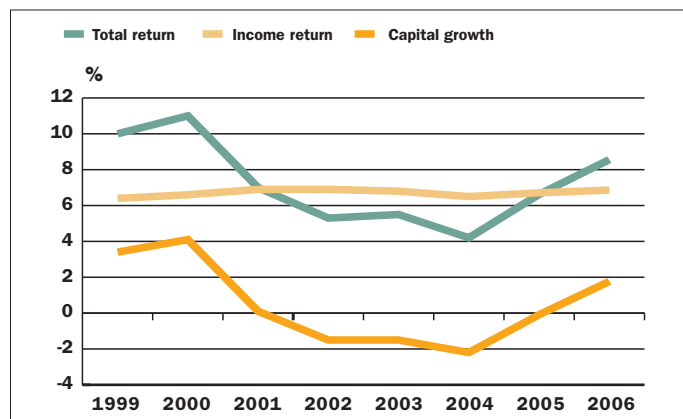
The investment performance of offices was depressed by declining capital values between 2002 and 2005. In 2006, the Finnish office market produced a total return of 8.6% – the highest figure since the year 2000. Capital growth increased to 1.8%, compared to -0.1% in 2005, driven by slightly decreasing yields. The income return remained relatively stable, at 6.7%. Occupancy rates of offices still remained below 90%, which affects rent passing in particular, but apparently also creates cautiousness in valuations.

5.2 The retail market

Players

The retail sector has a variety of participants as investors. Pension institutions, property companies, international investors, local investors and owner-occupiers all act as investors in the Finnish retail sector. There are four main types of retail properties on the market: traditional high-street shop units, shopping centres, supermarket premises, and the emerging retail parks sector. In addition to these, there is also a variety of smaller or medium-sized shop units that are either free-standing, in the suburbs or in small neighbourhood centres. These units are normally owned by housing companies or smaller private investors.

Total returns on office investments 1999-2006



(Source: KTI)

"The Finnish shopping centre market is developing rapidly"

High street shops are normally held by the same investors which own office stock in the city centres, as most of the building stock is mixed-use in the best retail areas. This makes, e.g. Sponda and Ilmarinen, important players in the Helsinki CBD.

The Finnish shopping centre market is dominated by Citycon plc, which, after rapid expansion, currently owns 28 shopping centres: 20 around Finland, 6 in Sweden and one in both Estonia and Lithuania. Some Finnish pension institutions own whole centres, but more typically 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. The Dutch company Wereldhave is a major player in the Finnish shopping centre market through its ownership in Itäkeskus. Doughty Hanson, which acquired a mixed retail portfolio from Ilmarinen in 2004, also owns some centres, the largest unit being Iso Omena shopping centre in Espoo. Rodamco entered the Finnish market in 2005 by acquiring the majority of Jumbo shopping centre in Vantaa.

Supply in the Finnish shopping centre market has increased markedly recently thanks to some major new developments in the Helsinki metropolitan area. The Kamppi Centre in the Helsinki CBD was completed in early 2006, when it was also sold to the British investors Boulton and the Royal Bank of Scotland. The completions and extensions of Sello in Espoo and Jumbo in Vantaa added to supply markedly in the Helsinki metropolitan area in 2005. In 2006, the major news in the Finnish shopping centre market was the completion of Ideapark in Lempäälä near Tampere. Ideapark is a 100,000 sqm centre developed and owned by private investors. New shopping centres have also



attracted new tenants, e.g. international chain stores either entering or expanding their outlet network in Finland.

Hypermarket and supermarket investments have traditionally been favoured by some pension insurance companies and life funds, a situation which has changed to some extent in recent years. Supermarket operators normally take a 15–25% responsibility for the whole building. In a hypermarket, the main tenant occupies more than 50% of the floor space. In the hypermarket and supermarket buildings, there are some speciality stores, some of which might be controlled by the same operator. Operators – SOK and Kesko in particular – still remain as major owners of hypermarket and supermarket buildings.

The ownership structure of this market sector has gone through quite extensive changes in recent years. During 2006, some major transactions were made, as a consequence

TOP 10 shopping centres in Finland

Center	GLA	Main Owner	Location
1 Itäkeskus	112 498	Wereldhave Finland Ltd	Helsinki
2 Sello	97 000	KEVA, Etera, Pension Fennia	Espoo
3 Ideapark	91 529	Private Investors	Lempäälä
4 Jumbo	85 000	Rodamco, Pension Fennia	Vantaa
5 Iso Omena	47 400	Doughty Hanson	Espoo
6 Mylly	45 321	RBS Nordisk Renting Ltd.	Raisio
7 Hansa	36 688	Several owners: institutions, non-profit fund, property companies	Turku
8 Kamppi	35 000	Boulton Construction Ltd., The Royal Bank of Scotland Plc	Helsinki
9 Trio	32 350	Citycon Plc	Lahti
10 Myyrmanni	31 600	Citycon Plc	Vantaa

(Source: Finnish Council for Shopping Centres)



of which international investors gained a significant market position in this sector. NIAM, Sveafastigheter, Curzon/IXIS, Kenmore and Schaumann Investments are examples of new investors who bought major retail portfolios during 2006. Also, Ejendomsinvest continued its expansion mainly in the retail market.

“Retail properties and portfolios accounted for more than 50% of major transactions in 2006”

made for a fixed period, which then continue for an infinite time, are becoming more common.

In high street shops, a variety of lease terms are applied depending on the retail sector. A fairly common term is five years with the option for renewal. In hypermarket and supermarket properties, investors are increasingly cash-flow driven, and agreements are typically relatively long-term contracts with net rent.

In shopping centres, rental agreements are typically developed towards the more co-operative type of deals between the tenant and the owner in order to ensure common interest. From the owners' point of view, it is also important to ensure the ability to adjust the centre to changing market situations. Anchor tenants often have leases of 5-10, even 15 years, with renewal options sometimes applied in shorter leases. Other tenants have typically shorter leases. The use of turnover leases is gradually increasing in new rental agreements.

The retail market in 2007

Increasing purchasing power as well as the concentration of the population have sustained the major additions to retail space in most growth centres. The demand for retail space has remained strong because of consumers' strong confidence in their own purchasing power. In 2006, retail sales increased by over 5% compared with the previous year. New international retail chains have been constantly entering the market, thus both adding to the space demand and also affecting market practices.

Rental practices

Rental practices in the retail market are becoming more varied. Different types of investors have differing strategies and preferences, and also the type of retail space in question has an increasingly significant effect on terms applied. In addition, the market entry of new international chain stores as tenants has had an effect on lease terms.

Rental agreements are normally somewhat longer in retail than in the office market. Fixed terms are more commonly applied in the retail market as location is a key factor in the retail trade. Fixed rental agreements comprise about 40% of the cash flow of all retail agreements in the KTI database. The typical minimum term for retail space is three years if the location is competitive. In some cases, agreements first

Retail space is almost fully occupied in most growth centres despite the rapidly increasing amount of retail stock. Retail rents have been increasing in the best locations.

"Retail sales increased
by more than 5% in
2006"

The demand for high street shops in good locations as well as high quality shopping centres is expected to remain strong and even increase. This might harm some older shopping centres and retail buildings in the same catchment areas. Currently, the occupancy rates of major investors' retail premises are at 96% – i.e. significantly higher than that of offices.

The past few years have been very active in terms of retail development. In 2006, the Kamppi project was the major completion in the Helsinki metropolitan area. For the next couple of years, development will drop off slightly. The major ongoing projects in the Helsinki CBD include redevelopments or extensions of the Sponda's City Centre, the Stockmann department store and the Forum shopping centre. There are, however, some major projects in the pipeline elsewhere in the Helsinki region which are to be started when planning processes are completed and a satisfactory level of pre-letting is reached.

Retail premises have attracted investors both in the Helsinki Area and elsewhere in Finland, and as both individual assets and as bigger portfolios. Retail property transactions accounted for more than 50% of the total volume of transactions in 2006. Most of the major deals were made by foreign investors.

Compared with offices, the retail sector has offered competitive returns in recent years. Their performance also remained strong in 2006, and retail properties produced a total return of %, consisting of a capital growth of % and an income return of 8.2%. Retail was – again – the best performing property sector in 2006 with a clear margin, producing a total return of 14.6%, and thus being the highest figure for retail sector in the whole KTI Index history. This consisted of capital growth of 6.2% and income return of 7.9%. Capital growth in particular showed a significant increase compared to the previous year, mainly driven by increasing rental values. Strong rental income together with high occupancy rates supported income return. Shopping centers in particular performed strongly in 2006.

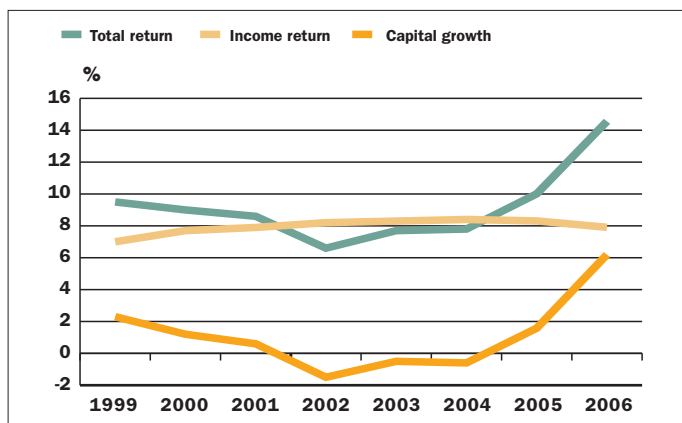
5.3 Residential

Players

Two-thirds of Finland's housing stock consists of owner-occupied homes, and home ownership is widespread in all forms of housing, including apartments as well as detached and terraced houses.

There are slightly less than 800,000 households occupying rented accommodation in Finland. Of these apartments, ca. 50% receive some kind of public subsidy – either state housing loans or an interest subsidy. In the subsidised market, municipalities are the major players, but there are also some significant private, non-profit companies in the market (e.g. Sato, VVO, YH). There are various forms of public subsidy; some have specific strict rules for tenant selection and the rents are regulated, whereas other forms of subsidies allow a more market-oriented approach.

Total returns on retail investments 1999-2006



(Source: KTI)

The popularity of owner-occupation has increased during the past few years because of the lowering of interest rates and consumers' strong confidence in their own economic position. This can be seen in the volume of development of housing loans. The increase in interest rates has not affected markedly either the development of loans or the development of house prices so far. Since late 2006, the growth rate of housing loans has slowed down slightly.

Of the rental apartments in the non-subsidised free market, the majority is owned by small investors, mainly individuals. Therefore, the so-called professional residential investment market currently consists of some 150,000–200,000 dwellings.

Some pension funds and insurance companies have traditionally had significant residential portfolios, as they have proven to provide diversification benefits for multi-sector property portfolios. However, in recent years some funds have sold their residential properties because of their typically low net cash flow as well as their management intensiveness. This has led to the growth of major companies concentrating on residential properties, as they have been the major purchasers in portfolio transactions. Some institutions have chosen a different sales strategy and sold the apartments unit by unit to owner-occupiers or individual investors. Some institutions, Varma and Ilmarinen in particular, have chosen the strategy of indirect investment in the residential market through significant shareholdings in VVO and Sato. VVO and Sato have thereby strengthened their positions in the residential property investment market.

In 2006, the first non-listed property fund investing in residential property was launched by Icecapital Real Estate Asset Management Oy. When launched, the fund acquired

residential property worth some €100 million from its investors, i.e. Varma, Pension Fennia, Etera and Pharmacies' Pension fund.

Recently there has been increasing interest in the Finnish rental residential market from foreign investors' part. No significant transactions have, however, been released so far.

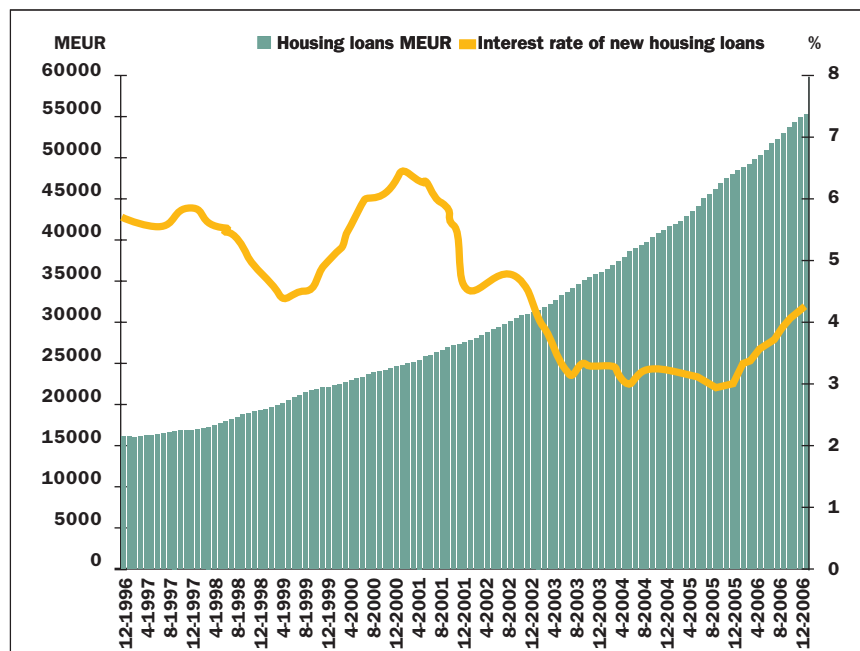
Falling interest rates first increased high-net-wealth individuals' interest in residential property investment in the early 2000s. However, the increasing demand from owner-occupiers has led to rising house prices, and thus created good exit opportunities for investors. Therefore, the supply of rental apartments offered by private individuals has recently decreased.

Rental practices

Rents for free-market rental dwellings were gradually deregulated during the 1990s. Currently there are no restrictions for, e.g. rental periods or rental levels. Rental agreements are typically made for a certain period, e.g. a year, and after that they are usually valid for an indefinite period. The tenant has the right to terminate the contract after an agreed notice period, typically one month. The landlord only can terminate the contract under certain specific conditions.

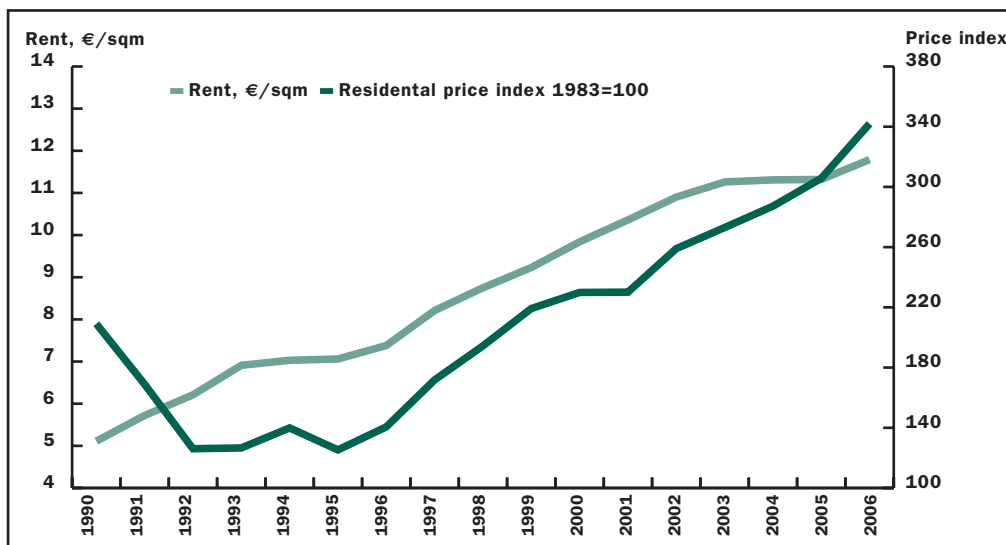
About 30,000-35,000 new dwellings are developed annually. In recent years, free-market production has dominated development, as state subsidies' attractiveness has decreased together with falling interest rates. Major developers include property companies which specialise in housing and construction companies. During recent

Development of housing loans and interest rates



(Source: Bank of Finland)

Development of residential rents and prices in Helsinki region



(Source: Statistics Finland)

“International interest increasing in the Finnish residential market”

years, new production for owner-occupied dwellings has dominated the market. The popularity of single-family houses has increased markedly in recent years with almost half of new residential production currently being single-family houses.

The residential market in 2007

Residential prices have been rising since the latter part of the 1990s, especially in the Helsinki region and in some other growth centres. The rapid increase has spurred the discussion of a potential price bubble. Because of the strong demand, prices have, however, continued to increase despite the rise in interest rates. During 2006, house prices increased by some 7.4% across the whole of Finland. The increase was, again, higher in the Helsinki metropolitan area, amounting to 8.8%.

At the same time, the development of residential rents has been more varied. During the strongest period of interest in owner-occupied housing, rents were stable and rental apartments had temporary occupancy problems. During the past year, demand for rented housing has again increased. Rents are on the up in the best locations, showing an average increase of 2.6% across the whole of Finland.

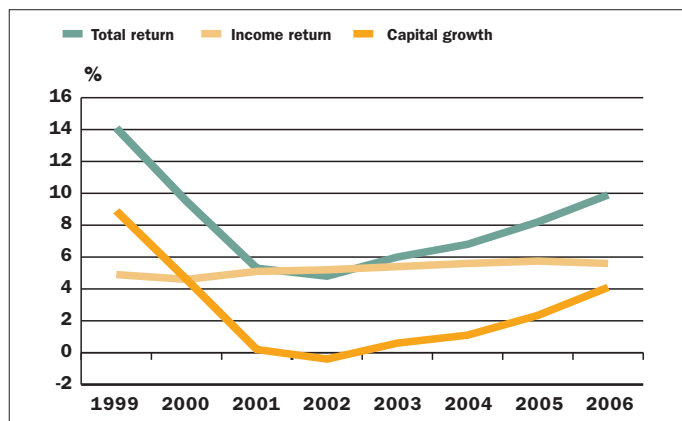
The supply of rental residential apartments has also



started to become increasingly diversified during the past few years. Some investors, Sato in particular, have started to offer higher-quality rented housing in premium locations. These so-called “five-star” apartments are mainly targeted at foreign specialist employees living temporarily in Finland.

Residential properties’ total return in 2006 amounted to 9.9%, consisting of a capital growth of 4.1% and income return of 5.6%. Capital growth increased dearly compared with the previous year driven by both decreasing yields and increasing rental values. Occupancy rates continued to improve, thus supporting residential sector’s income return.

Total returns on residential investments 1999-2006



(Source: KTI)

5.4 Industrial/logistics

Players

The industrial property market can be divided into various sub-categories with varying market structures and practices and a heterogeneous customer base with varying needs and preferences. Large industrial corporations' manufacturing properties are typically owned by their occupiers because of low investment demand in the market. Pension funds represent a minor proportion of the market. In the light manufacturing property market, the ownership structure is more diverse, with occupiers, property companies, pension and insurance companies, individual investors, and municipalities as examples of investors. Foreign investors have also shown increased interest in these markets.

The modern warehousing and logistics property market has just started to emerge in recent years. This relatively late emergence was partly caused by the major retail companies' sophisticated centralised warehousing systems, which are self-maintained, and thus owner-occupancy has been very common in the logistics and warehousing markets.

Sponda is the most significant developer and investor currently active in the logistics market. It has some 420,000 sqm of logistics space in the Helsinki metropolitan area, and is actively increasing its portfolio. In 2006, Sponda also set up a € 200 million property fund investing in logistics properties, in which it acts as a co-investor and manager.

In the Helsinki metropolitan area, the best locations for industrial and logistics properties are defined by their traffic connections, the preferred areas being next to Ring Road III, which have good connections to both the new Vuosaari harbour and Helsinki-Vantaa airport. In these areas, there

is significant new production under construction or in the pipeline.

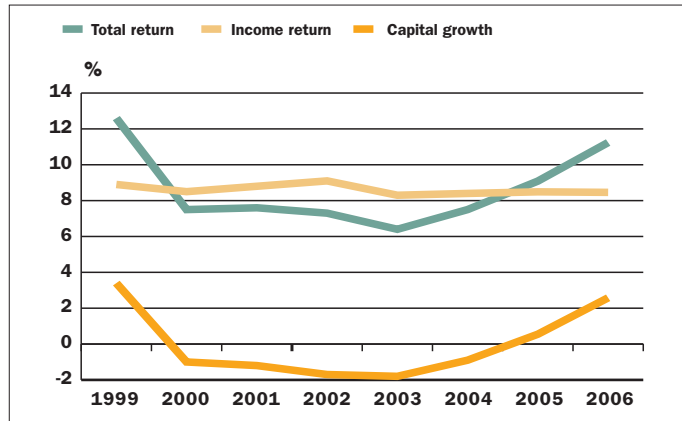
The Vuosaari harbour project, to be completed in late 2008, in particular, is fuelling extensive new logistics development. In the harbour area itself, John Nurminen is developing a 40,000 sqm logistics centre, and Sponda's project comprises a 130,000 sqm logistics centre and a gatehouse and passenger terminal, its value totalling almost €150 million. In addition to the area itself, the harbour is stimulating new logistics development in several locations which have good traffic connections. These planned projects amount to hundreds of thousands of sqm, and are typically joint efforts of municipalities and construction companies.

Market practices

Because of the heterogeneity of both the stock and the users' needs, rental practices are varied 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 10 or 15 years, and rents are mainly determined according to the rating of the tenant.

"The logistics market is developing rapidly"

Total returns on industrial property investments 1999-2006



(Source: KTI)

The industrial/logistics market in 2007

In recent years, there has been a shortage of modern light manufacturing, warehouse and logistics premises in the Helsinki region, and vacancy rates have been relatively low. This has been pretty much the case for other growth centres as well. Modern logistics properties have also become more popular among major investors. International investor interest has also been increasing recently.

Rents for industrial and logistics premises have remained pretty stable, or have increased slightly in recent years. Because of only moderate new development, vacancy rates have remained low although stable. Industrial properties produced a total return of 11.2% in 2006. Compared with the previous year, the income return remained stable, at 8.5%. Capital growth increased to 2.6%, thus showing a clear increase compared with 2005. For warehouses, both income return and capital growth figures showed improvement compared with the previous year.



6. Property markets in different regions – market overview in spring 2007

The prime property market areas in Finland are to be found in the Helsinki metropolitan area – in the cities of Helsinki, Espoo and Vantaa. They also are of most interest to major investors, including international investment demand.

The second-tier markets – typically the regional growth centres of Tampere, Turku, Oulu and Jyväskylä – are popular among domestic institutions and have also attracted some international capital recently. In these cities, there are also local players that operate only in these market areas.

The third-tier markets – those in smaller city regions – have traditionally been mainly dominated by local investors. Finnish institutions tend to be quite cautious about these markets because of higher perceived risk and low liquidity. However, retail markets in particular have recently attracted international investors to smaller towns. These investments offer relatively high yields with low occupancy risks, when cash-flow is secured by a long lease.

6.1 Helsinki region

Population: Helsinki:	560,000
Espoo:	231,000
Vantaa:	187,000
Helsinki region in total:	1,300,000

Economic base: Professional services, high-tech industries, public sector services

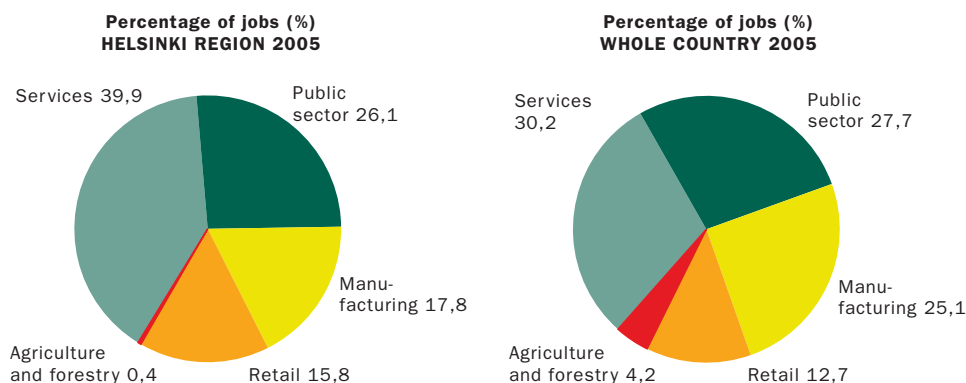
The Helsinki region dominates the Finnish economy. It currently represents 24% of the population, almost 29% of the jobs and 33% of the GDP of the entire country. Some 40% of investment in research and product development by Finnish companies is invested in the Helsinki area.

Compared with the whole country, the proportion of jobs in the private service sector is significantly higher in Helsinki, at over 40% (30% across the whole country). Altogether, trade occupations together with public and private services employ 82% of the workforce in the Helsinki region compared to 71% across the whole country. Specialist professional services, as well as high-tech industries and research and development activities, have a stronger role in Helsinki compared with the whole country. Helsinki's strong role as an administrative centre of the country also affects its economic structure. Therefore, the proportion of the workforce employed in manufacturing in Helsinki is markedly lower than in the other parts of the country.

"The Helsinki region represents 33% of the Finnish GDP"

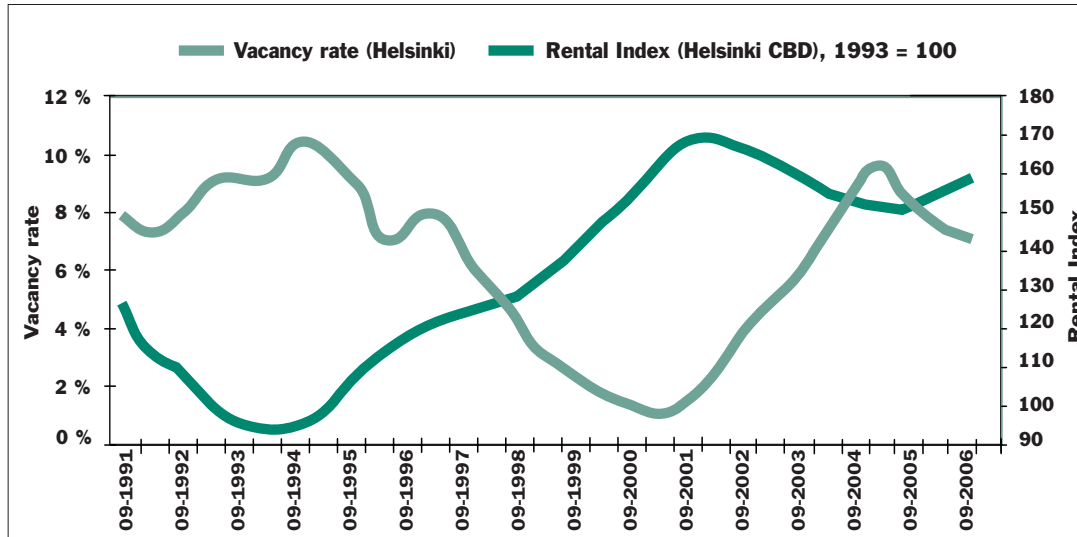
The Helsinki office market in particular has been reacting to economic upswings and downturns both in terms of rental levels and vacancies. In the latter part of the 1990s and early 2000s, there was a constant shortage of office space. With the economic downturn demand for office space started to decrease in 2001, and, at the same time, the supply increased. This resulted in rising vacancies and falling rents particularly in some less attractive areas. Starting from late 2005 and early 2006, rents started to increase again, especially in good office areas, led by Helsinki CBD.

The structure of the economy, Helsinki vs. the country as a whole



(Source: Helsinki Chamber of Commerce)

Office rent index and vacancy rate in Helsinki



(Source: KTI, Catella Property)

Changes in tenants' qualitative requirements for office space are most visible in the Helsinki region, mainly because of the large amount of headquarters as well as the large proportion of professional services companies. Space efficiency, modern connectivity and technical equipment are increasing in importance when it comes to corporations' office space selection criteria.

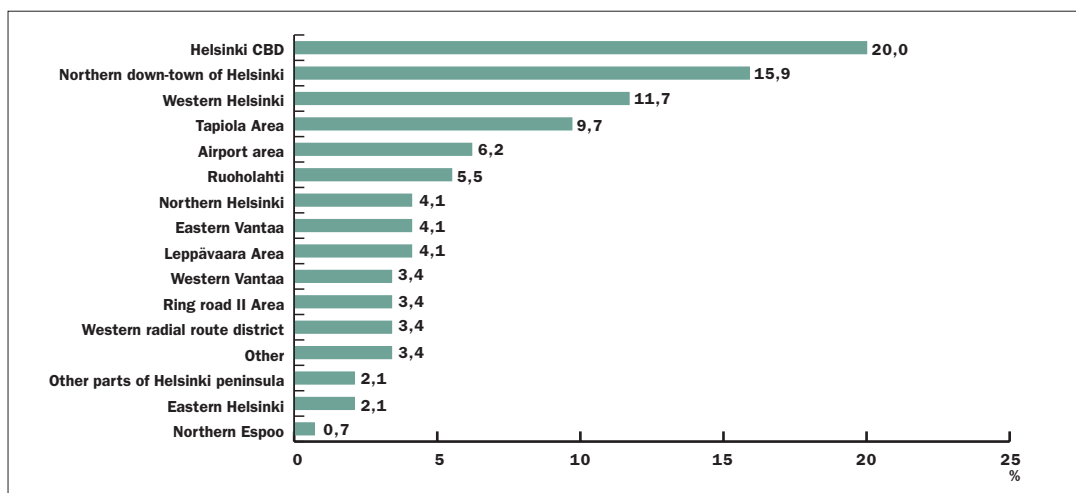
In a barometer survey conducted among corporations in the Helsinki region, the CBD, areas surrounding it and the airport area are the most preferred office locations in the Helsinki metropolitan area. Corporations using office space expect their office-staff numbers to increase in the near future. This also affects their need for space, the expected increase of which is, however, significantly lower than the increase in employment.

Retail space supply has been increasing rapidly during recent years in the Helsinki region. Because of rising consumer spending, premises have been practically fully occupied and rents in the best locations have been rising steadily. Several new international retail chains have entered the Finnish market recently, usually starting from the Helsinki area.

The Helsinki Central Business District

The Helsinki CBD is the most important single property sub-market in Finland. It is multi-faceted, as this small area is not only the most attractive office location but also the undisputed centre of retail trade in Finland. It also contains the most important administrative functions such as the Parliament and the Government.

Preferred office locations in the Helsinki Metropolitan Area %



(Source: Future Workplace barometer survey; KTI and Skanska)

Examples of Major Commercial Real Estate Development projects in Helsinki Metropolitan Area in 2007

NAME	LOCATION	PROPERTY TYPE	GROSS AREA (m ²)	ESTIMATED COMPLETION	INVESTOR
Kara Mid Point	Espoo, Karamalmi	office	28,600	summer 2008	Nokia Asset Management
Swing Life Science Center V	Espoo, Keilaniemi	office	8,500	12 / 2007	Etera Mutual Pension Insurance Company
Neste Oil Headquarters	Espoo, Keilaniemi	office	14,000	spring 2008	Neste Oil Pension Fund
Panorama Tower	Espoo, Leppävaara	office	20,500	12 / 2007	Varma Mutual Pension Insurance Company
Falcon Business Park, phase I	Espoo, Pohjois-Tapiola	office	6,000	06 / 2007	NCC Property Development Oy
Stockmann, extension	Helsinki, CBD	retail	10,000	2010	Oy Stockmann Ab
Prisma	Helsinki, Viikki	retail	14,000	09 / 2007	HOK-Elanto
Bolero Business Park, phase III	Helsinki, Pitäjänmäki	office	6,000	01 / 2007	Internationales Immobilien-Institut GmbH (iii GmbH)
NCC buildings, phase III	Helsinki, Ruskeasuo	office	6,500	05 / 2007	Niam Fund III
Koy Hiiliranta	Helsinki, Salmisaari	office	66,000	2008	Varma Mutual Pension Insurance Company
Hilton hotel	Vantaa, Aviapolis	hotel	17,000	10 / 2007	Lentoasemakiinteistöt
Aviapolis Leisure Center	Vantaa, Pakkala	hotel / office / leisure center	84,000	autumn 2008	Varma Mutual Pension Insurance Company

(Sources: KTI Finland, Reed Business Information)

Office users in the city centre are mostly companies offering business-to-business services, such as financial services, consultancies or media companies. Despite the low supply of newly built office buildings, most of the stock in the CBD is well maintained and refurbished. Despite the increased supply of modern stock in other areas, the Helsinki CBD still remains the most preferred location in the Helsinki area for office premises.

In recent years, the CBD area has been experiencing a facelift as pedestrian areas have been extended and renewed as a result of co-operation between property owners and local authorities. This co-operation will also result in extended underground tunnels and parking facilities.

In the Helsinki CBD, office rents rose at a steady rate of around 10% pa between 1994 and 2001. The rise levelled off in late 2001, and rents started to fall moderately. Thanks to the strengthening demand, rents increased again in late 2005. In 2006, office rents rose by 4.4% in the CBD with the increase accelerating towards the end of the year. Rents in prime locations are expected to continue to increase further in the near future. In CBD, the vacancy rate has remained moderate throughout the years, and currently stands at about 6.3% according to Catella

"Prime retail rents are increasing in the Helsinki CBD"

The redevelopment of the city bus station area, the Kamppi Centre project, at the heart of the city, was completed in early 2006, when the 35,000 sqm shopping centre was opened. The developers, SRV Group and Pontos Oy, sold the project to Boulton Construction and the Royal Bank of Scotland for €345 million. In the same area, some 12,000 sqm of new office space was also developed, and this Trigora project was sold to Aareal's Nordic Fund in spring 2006. These projects have transferred the emphasis of the CBD property markets onto the Kamppi area.

New retail space has been or will also be created in the CBD by the development of Sponda's CityCentre project, as well as by the extensions of both the Stockmann's department store and the Forum shopping centre. The rents for prime retail space in the city centre have been increasing steadily, and the premises are almost fully occupied.

Ruoholahti and other areas outside the city centre

Ruoholahti is a modern office area less than 2 km west of the Helsinki CBD at the starting point of a major western radial route. Ruoholahti has attracted a variety of office users, e.g. IT/high-tech and business consultancy companies, as well as many other industries. The area has constantly attracted tenants, and, therefore, rents have increased steadily and vacancies have remained modest, although they have risen slightly during the past few months.

There is also plenty of development potential in Ruoholahti and in the adjacent Salmisaari area in particular. New office development projects in the area are under construction or are being planned by e.g. Varma, Ahlström

Capital and Technopolis. Pension insurance company Varma plans to move its head office to Salmisaari. The first phase of the 66,000 sqm project is scheduled to be completed in 2008, and the second phase – which will mostly be rented out – to be started during 2007.

“Ruoholahti remains one of the most attractive office areas in Helsinki”

Other major office areas situated somewhat out of the city centre include Pasila, Sörnäinen, Vallila and Lauttasaari. These areas are characterised by a multi-faceted office supply, and the new buildings in the areas have attracted tenants from the expensive city centre. There are significant differences in rental levels between the new and old property stock in these areas. Demand in these areas, especially for modern premises, has increased markedly during the past year, resulting in rising rents and decreasing vacancies.

There is also some development potential in these areas, especially in Pasila and Vallila. In the Pasila area, there are plans for major development projects, the goal being to create a distinctive office employment area with high-class residential developments. In the Western Pasila/Ilmala areas, major new office projects are being planned, the developers comprising e.g. Pension Fennia, Pension fund of the Finnish Broadcasting company as well as Sponda together with some construction companies.

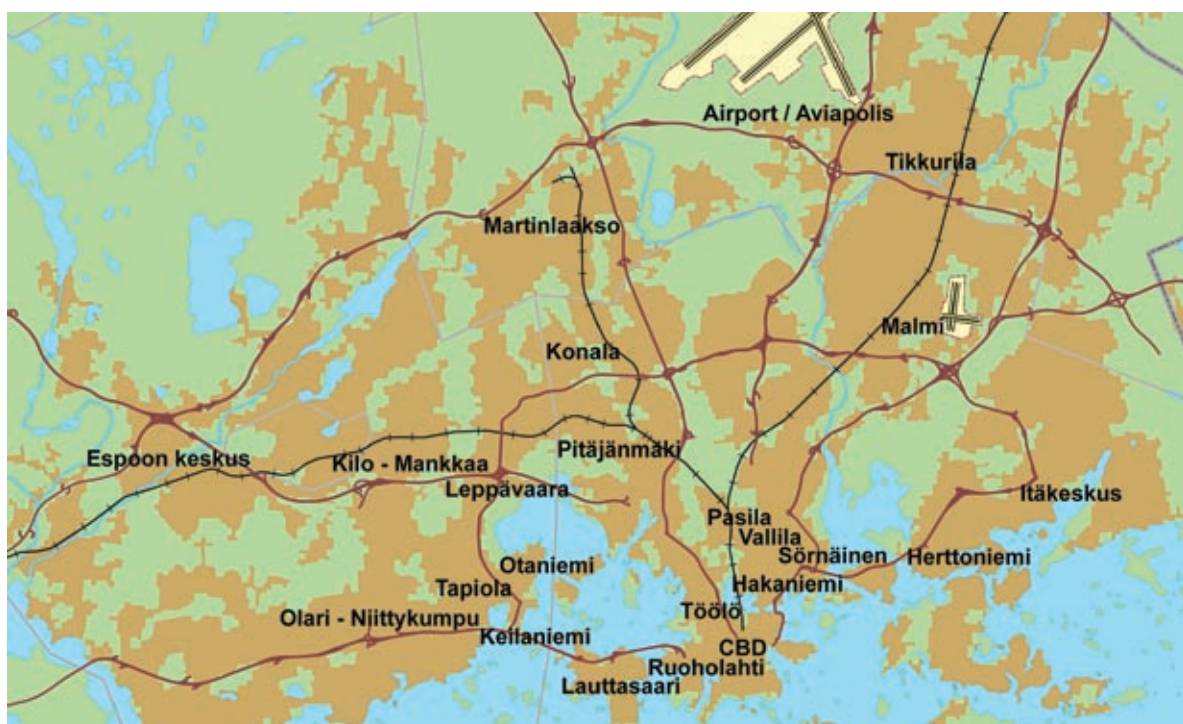
Other areas in Helsinki

Pitäjänmäki, situated 7 km north of the city centre, is an old industrial area that was rapidly converted into one of the IT centres of the Helsinki metropolitan area in the late 1990s and early 2000s, with some major headquarter-type new developments. Pitäjänmäki is one of the areas in Helsinki that was most severely hit by rising vacancies because of decreasing demand in the early 2000s. This also resulted in decreasing rents. However, as the space supply is very heterogeneous, some quite expensive new agreements have also been made for the best premises. During the past year, demand for some older stock has also been rising, although the rents for these grade B/C premises have been quite low.

The development projects in the area include e.g. Bolero Business Park, the third phase of which will be completed in early 2007. The German fund Internationales Immobilien-Institut GmbH (iii GmbH) has acquired all these three buildings, which are fully let. The fourth 6,000 sqm phase is being planned.

Another area increasing in importance as an office market is Ruskeasu, where NCC has developed new offices. VVO is constructing a head office next to these buildings. Moreover, in Käpylä, north-east from Pasila, there are some office development projects currently under construction.

Herttoniemi is an area 5 km east of the CBD, adjacent to both the eastern radial route and the metro line. Herttoniemi is undergoing a slow transition from an old warehousing area to a more diversified area with offices and “big box” retail units. Herttoniemi’s building stock consists of both older and more modern buildings, and some old properties are being torn down, and, at the same time, new ones are being



"Big differences between submarkets in Espoo"

built. New projects in the area include e.g. Opus Business Park, the second phase of which was completed in early 2006, and the third phase is due to start in early 2007. Other projects include an office building extending the Megahertsi Shopping Centre and Jam Business Park. In Herttoniemi, the vacancy rate rose in 2006, although the amount of vacant space measured by space area is not as significant because of the relatively small office stock.

Further east, "Itäkeskus" (the Eastern Centre) can be found, located at the junction of Ring Road I and the eastern radial route. The Itäkeskus shopping mall is one of the largest shopping centres in Europe with a leasable area of over 100,000 sqm.

The Arabia area is a redevelopment area east of Helsinki consisting of a medium-sized shopping centre, office buildings and business park, educational facilities, and a growing residential area. The development of the second phase of the Portaali business park is planned to be started during 2007. Also east of Helsinki, by the Lahti Road, the Viikki Science park, a centre for biotechnical research and development activities, can be found. Some new business park type developments in the Viikki area are also being planned.

Espoo – a city with diversified office areas

In Espoo, the areas of Keilalahti/Keilaniemi, Tapiola, Otaniemi and southern Leppävaara create an increasingly important converging office market area. The popularity of this area can be explained by its proximity to Ring Road I, the Helsinki University of Technology as well as the strong presence of high-tech companies and research units. A large proportion of the people working in this area also reside in Espoo, giving the area a competitive edge for location decisions. There are several business park developments in addition to custom-built back-office or headquarters projects for major users.

Keilaniemi and Keilalahti provide many company headquarters – e.g. Nokia, Kone and Fortum – with a pleasant waterfront location. New developments in this neighbourhood include headquarters of Neste Oil, SRV's High Tech Centre as well as the fifth phase of the Swing Life Science Centre. The vacancy rate in Keilaniemi has been quite high recently despite its attractive building stock, although this can be expected to be a temporary phenomenon. During the past six months, the vacancy rate has decreased slightly, but it still remains clearly above 10%.

In the immediate neighbourhood of Keilaniemi is the Otaniemi area, where the Helsinki University of Technology is situated. Otaniemi concentrates on offering offices for technology companies. Also in Otaniemi is Innopoli: a science park that is currently owned by Technopolis plc.

Other existing major business parks in Espoo include Spektri in Tapiola and Stella in Leppävaara, both by Ring Road I. In Tapiola, the first phase of the Falcon Business Park is currently under construction and has been sold to Aberdeen Property Nordic Fund. In total, the Business Park will comprise four buildings when completed. In Leppävaara, the 20,000 sqm Panorama Tower project is estimated to be completed by the year end.

The traditional centre of Tapiola is to undergo a major facelift starting in 2007. The combined value of development plans total nearly €300 million including the development of ca. 40,000 sqm of new retail space and major underground parking facilities. The Tapiola Group will also extend its head office in the area with another major building. As a result of these extensive development plans, the area seeks a stronger competitive position as a regional centre, which will be further enhanced by the extension of the metro line, due for completion in 2012.

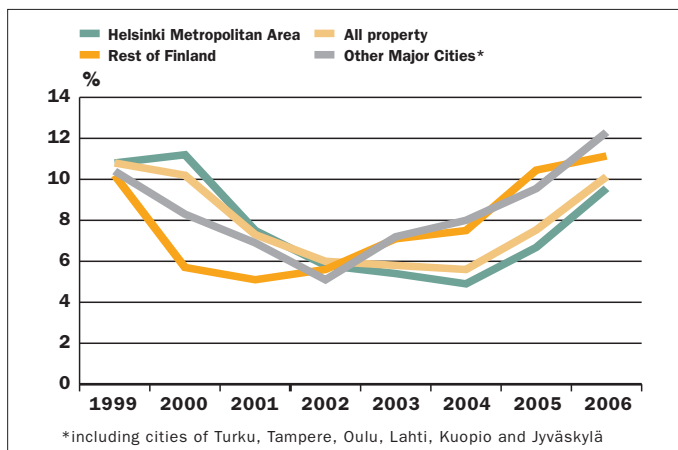
In addition to the centre of Tapiola, retail space in Espoo is concentrated in the Iso Omena (Big Apple) shopping centre close to the western radial route as well as in the Leppävaara area, where the Sello shopping centre can be found. Another retail area is Espoo Centrum, where the Espoontori shopping centre and train and bus terminal are being extended and developed.

Because of the decreasing demand, office rents in Espoo were hit by the downturn of the early 2000s. According to KTI's rental database, the occupancy rate of investors' office portfolios still remains relatively low in many areas. As the property stock of Espoo is very heterogeneous, there are, however, significant differences in attractiveness between areas, and even between individual buildings. New, high-quality buildings have attracted tenants, and the drop in rents has been moderate, whereas in older buildings and in less popular areas, rents have fallen significantly.

Vantaa – the airport city

The Aviapolis area around the Helsinki-Vantaa Airport has been developing rapidly during the past few years, and is currently seen as an attractive office location by many companies. It is the most rapidly developing area, with hundreds of thousands of sqms of new office, retail and logistics space under construction or being planned. The area currently hosts some 40,000 jobs. Property investors in the area include pension funds, domestic property companies and, increasingly, foreign investors.

Total returns by region 1999-2006



(Source: KTI)

The 85,000 sqm Jumbo shopping centre is the major retail centre in the area. In the immediate neighbourhood, the new 84,000 sqm Aviapolis leisure centre is being built which comprises hotel, office and leisure premises. New office projects are under construction or being planned by e.g. NCC, YIT, Palmberg, Sponda and Finavia's Airport properties. For example, the construction work for a new World Trade Centre is due to start in the autumn of 2007.

"The Aviapolis area is expanding rapidly"

In 2006, a 40,000 sqm logistics centre was completed by DHL close to the Airport area. Other new major logistics premises are also in the pipeline. The hotel supply in the area will be increased through the completion of the new Hilton hotel, located within the Airport itself, in late 2007.

The airport area has been attracting tenants, and the vacancy rates have remained low. Because of the modern supply, the rents are relatively high, and have been increasing recently.

In the vicinity of Aviapolis, Pakkala and Tammisto areas are important retail areas, favoured by big-box retail units, such as outlets for motor vehicles, furniture, gardening etc. These areas have also attracted some new office developments.

With the exception of the airport area, Tikkurila is the main office area in Vantaa, where most of the City's administrative buildings are located. Because of Vantaa's diversified office stock, rental levels are dispersed. There are plans for the Tikkurila area to be developed in order to increase its attractiveness and competitiveness as a retail area and centre for the city's public and administrative services.

The development of the Marja-Vantaa area and Ring railroad are major projects in Vantaa, which are currently in the planning phase. The new railroad will create a train connection to the airport and enhance the East-West traffic connections in Vantaa, thus also improving connections to the new Marja-Vantaa residential and office area. According to the current plans, the Marja-Vantaa area will be developed into an extensive suburban area with 27,000 inhabitants and 26,000 jobs.

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

Tampere

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

Population: Tampere: 206,000

Tampere region in total: 300,000

Tampere is the largest inland city in the Nordic countries, the population of which reached a peak of 200,000 inhabitants in 2003. Tampere is known as a traditional centre of Finnish industry, with a long history of metal and paper industries. The region's recent strong development derives mainly from the growth of high technology businesses as well as from the development of the service structure and service companies

"The 100,000 sqm Ideapark shopping centre was opened in late 2006"

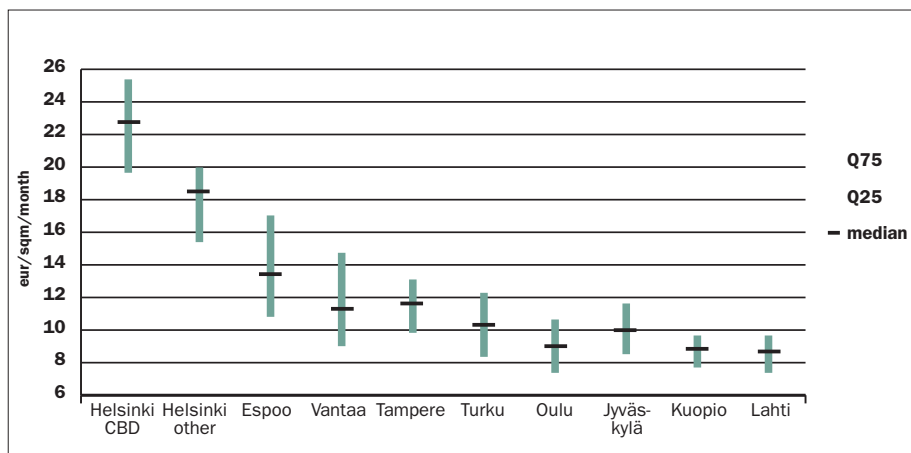
in the region. In addition to telecommunications, other technology expertise areas in the Tampere region include automation and healthcare technology. The city of Tampere is currently tightening its co-operation with the surrounding municipalities of Lempäälä, Pirkkala, Kangasala, Nokia, Ylöjärvi and Vesilahti. Together they will form an integrated region with a healthy economic base.

Tampere's favourable location and diversified business activities create a strong basis for real estate demand. South of the city centre the Hatanpää area can be found, hosting mainly high-tech companies. There are also large regenerated industrial areas on both sides of the river, north of the centre, where old factories have been converted into modern office space. Another developing area for high-tech and start-up companies is Hervanta in the neighbourhood of the technical university located at some distance from the city centre. There the Hermia technology centre offers 100,000 sqm of office space for more than 150 companies. The centre is managed by Tampere Science Parks, which was recently acquired by Technopolis.

Technopolis has also just begun work on the development of a new office building in Hermia. Citycon is currently developing a 15,500 sqm shopping centre, Duo, in Hervanta, which is due to be completed in 2007.

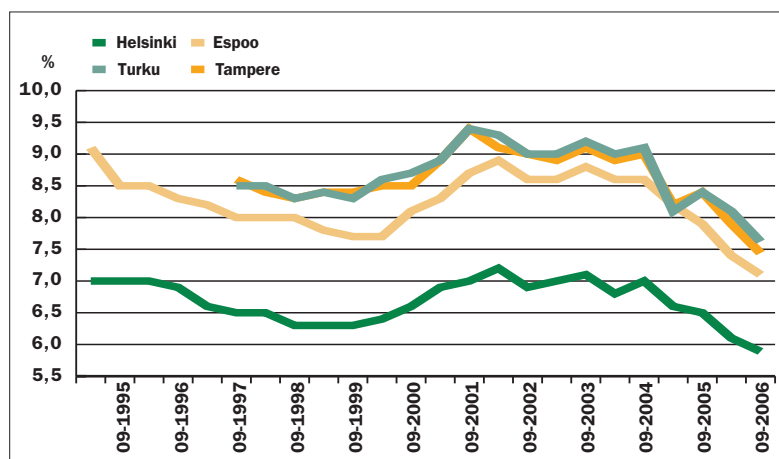


Office gross rents in major Finnish cities in 2006



(Source: KTI)

Prime Office Yields in Finnish Cities



(Source: KTI's barometre survey)

Duality in the office stock in Tampere has created a two-tier rental market. The most expensive retail space is situated along the main street, Hämeenkatu, or in the Koskikeskus shopping centre next to the main street. In contrast to the Helsinki area, office occupancy rates have remained at a high level in Tampere, and rents have been rising throughout the early 2000s in both the office and retail markets.

The retail market in the Tampere region is undergoing a period of significant change. One rapidly developing area is Pirkkala, where some retail park properties have attracted both tenants and investors. In the Ratina area in the city centre, a 40,000 sqm shopping centre is to be constructed, but the start has been postponed because of complaints about the bidding process.

A major development project was completed in Lempäälä, south of Tampere, in late 2006, when the Ideapark shopping centre was opened. A group of private investors developed this 100,000 sqm retail centre, at a cost of ca. €100 million. The tenants include e.g. home-furnishing, fashion and leisure companies.

Turku

Location: 160 km west of Helsinki, in south-western corner of Finland

Population: Turku: 176,000
Turku region in total: 290,000

Turku is the former capital of Finland, the economic strengths of which are based on its three universities, which have long traditions, and several strong industrial groups. Today's major industry sectors comprise electronic industries and the traditional metal industry. Currently Turku is aiming to profile itself as a modern centre for life sciences and biotechnology, a profile based mainly on high-level education in this field and its longstanding tradition in the medical industry.

Turku has a dual office market where the traditional central locations compete with business park type developments in the Kupittaa area, located near the university area and next to the railway station. This area, which has been under heavy development, is mainly targeted at high-tech, biotechnology and b-to-b service companies, and consists of office and high quality manufacturing space. Examples of recently completed projects in the area include e.g. If Insurance's offices, and a major ICT office building – a joint project between the three universities and the city. The first phase of Intelligate Business Park was also completed during 2006. Companies that have moved to these new premises have left their old premises behind, parts of which have been left vacant. In total, this area, called the Turku Science Park, currently houses ca. 330 companies in 210,000 sqm of business premises.

The office vacancy rate in Turku is currently above 10%. Rents have increased slightly thanks to increasing demand

and high-quality supply.

The retail market in Turku is concentrated in the city centre and in some regional centres outside the city, such as Länsikeskus and the Mylly shopping centre in Raisio. After a few years of active office development, the emphasis is now on the move towards construction of retail space. New retail space is currently being developed in the Hauninen area in Raisio as well as in Piispanristi, Kaarina. A major development project was started in late 2006 in the Skanssi area, where a 40,000 sqm shopping centre will be completed in spring 2009. When completed, this retail, residential and public services area will host 600 jobs and 5,000 inhabitants.

Oulu

Location: 600 km north of Helsinki, the northernmost growth centre of Finland

Population: Oulu: 130,000
Oulu region in total: 200,000

The Oulu region has been one of the fastest growing areas in Finland since the mid 1990s. Oulu is a university, science and technology city, the influence of which covers the whole of northern Finland – about one half of the area of the whole country. The Oulu region is regarded as one of the Finnish centres of information and communication technologies as well as a centre of the medical science and healthcare industries.

Oulu's real estate market is large enough to attract domestic pension funds. Lister property company Technopolis, originally founded in Oulu, is an important player in the office market. The interest of foreign investors has, so far, been quite moderate.

The most important real estate market outside the central retail area is the Linnanmaa area, which accommodates several high-tech companies and Oulu University. In the city centre, Technopolis has developed the first two phases of its new technology centre, totalling ca. 12,000 sqm of new space.

The office vacancy rate has remained at a low level in Oulu throughout recent years, and stand currently at c.a. 6.5% according to Catella. In the retail market, there is practically no vacant space. The rents of modern premises have remained stable.

Lahti

Location: 104 km north-east of Helsinki

Population: Lahti: 98,000
Lahti region in total: 157,000

Lahti is a traditional industrial city with a strong background in furniture and the food industry. Recently, the emphasis on jobs has transferred to professional services. Because of structural changes in the economy, unemployment in Lahti

has remained high compared to the whole country. The new railroad, which was completed in 2006, improved the traffic connections to Lahti markedly.

In contrast to the other major cities, there has been some oversupply of retail space in Lahti. Also, office vacancy rate levels have been above the average levels. Despite this, rents have been relatively stable. New developments in the area mainly include retail space, e.g. the extension of the Trio shopping centre as well as a leisure centre in the city centre. The Lahti region, and the retail market in particular, have also attracted international investment demand recently.

Kuopio

Location: 400 km north-east of Helsinki
Population: Kuopio: 91,000
Kuopio region in total: 118,000

Kuopio, situated in eastern Finland, is the capital of the province of Savo. Kuopio is a university city and one of the national centres of expertise. The Kuopio region places emphasis on the research and development of information and welfare technologies. Of traditional industries, those related to wood and food are the most important ones. As in most major cities at the moment, the service sector is the biggest employer in the area.

The investor base in the Kuopio property market is dominated by domestic players, consisting of both national and local investors. In the city centre, ownership is concentrated on only a few portfolios. The retail market is concentrated in the city centre, around the main market place. The new shopping centre in the city centre increased the supply in 2004, and also boosted rental levels. Office rents have risen slightly during the early 2000s. Occupancy

rates for both retail and offices are at an average level for Finnish cities. The other significant submarket is Leväinen, the retail and industrial area located south of the city centre, where e.g. the newly developed retail park Leväinen is located.

Jyväskylä

Location: 270 km north of Helsinki, in the centre of Finland
Population: Jyväskylä: 85,000
Jyväskylä region in total: 142,000

Jyväskylä is a dynamic university town with a strong emphasis on both traditional industries and new technology. The Jyväskylä region's areas of expertise cover paper manufacturing as well as information, energy, health and environmental technology.

Active co-operation between companies and the municipalities is typical for the Jyväskylä area. The area's municipalities' joint development company is one of the most active players in the commercial property market and it also co-operates with property investors in order to ensure the supply of suitable company premises.

The retail property market of Jyväskylä is concentrated in the city centre. The major players include local retailers as well as some national investors. In addition, some foreign investors have acquired retail properties in Jyväskylä. Retail rents are the highest in the pedestrian shopping district in the city centre. The best offices are to be found in the Technology Centre outside the city, where the rents are higher than those in the city centre.



7. The Finnish property market – an international comparison

7.1 Office stock in Helsinki and other major European cities

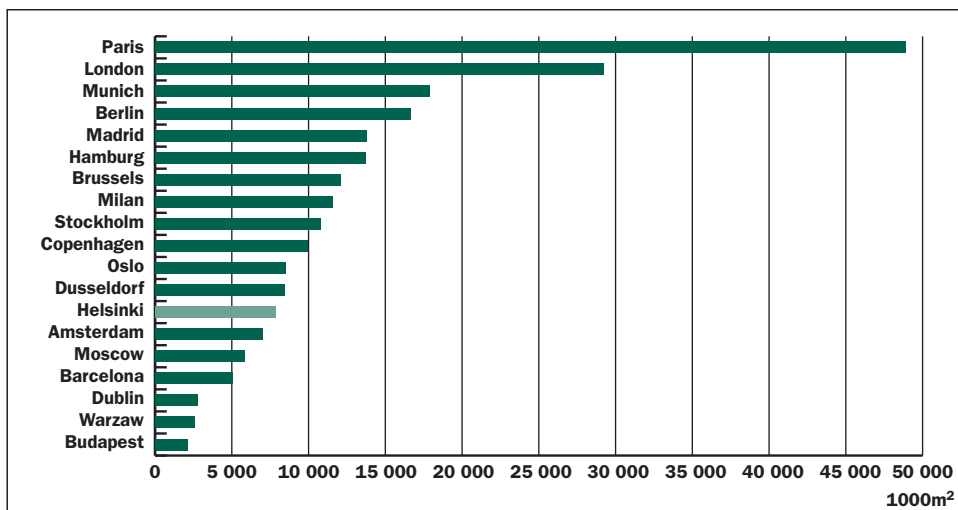
The relative importance of the Helsinki commercial property market is much greater than in many European cities of comparable size. This can be explained by the dominant position that Helsinki has in Finland. There are no other large city regions in Finland. Thus nearly all major headquarters as well as most of the government agencies are located in the Helsinki metropolitan area. Strong internal migration from other parts of the country has strengthened the economic base of the Helsinki metropolitan area.

The total stock of office space has been growing steadily in the Helsinki metropolitan area. This steady growth is based on a wide and diversified demand for premises. The new office supply has created a two- or three-tier office market where modern premises in good locations attract investors and tenants, whereas the old-fashioned stock faces difficulties.

7.2 Vacancies

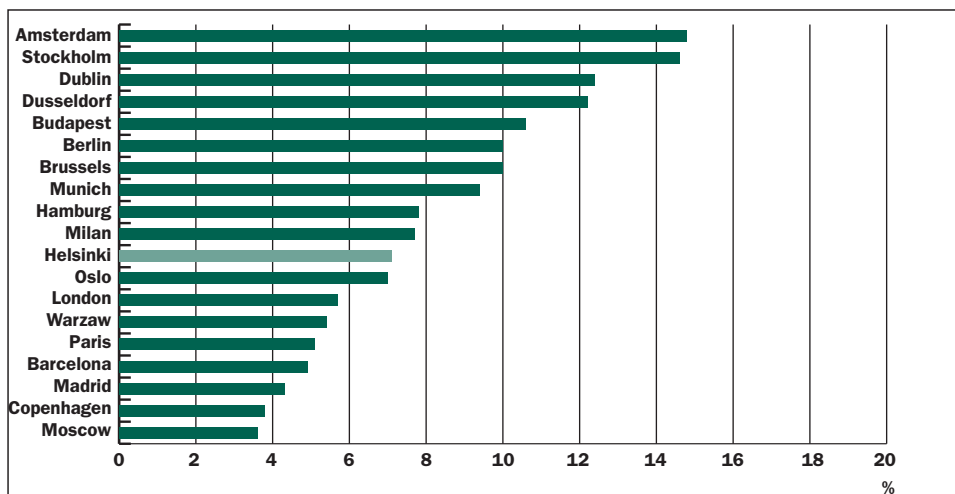
After having remained at historically low levels, the vacancy rates of offices started to increase in the early 2000s because of some major development projects, the completion of which coincided with weakening demand. The vacancies did not, however, ever rise to particularly high levels by international comparison. Despite the increase in the demand for office space during the past year, the vacancy rate has increased slightly because of the new supply coming into the market.

Office Stock – European Centres, 4th quarter 2006



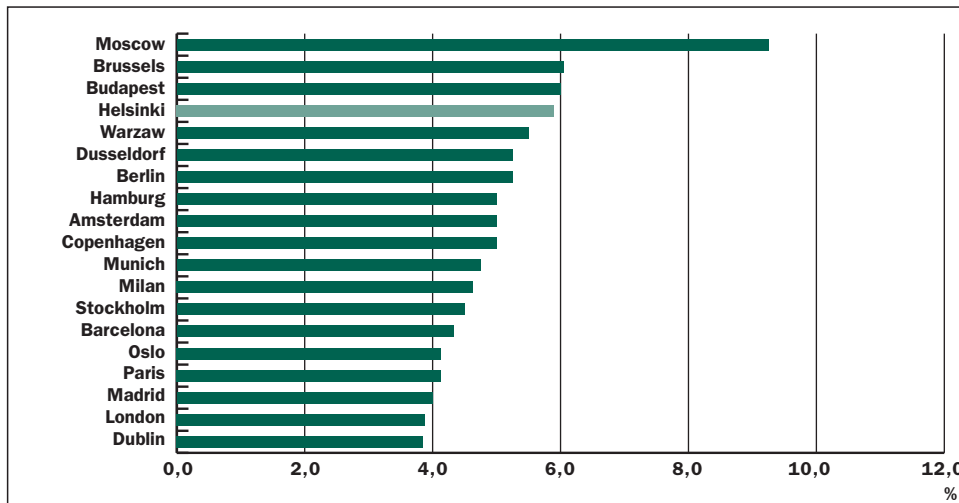
(Sources: Jones Lang LaSalle, Statistics Finland (Helsinki))

Office Market Vacancy Rates, 4th quarter 2006



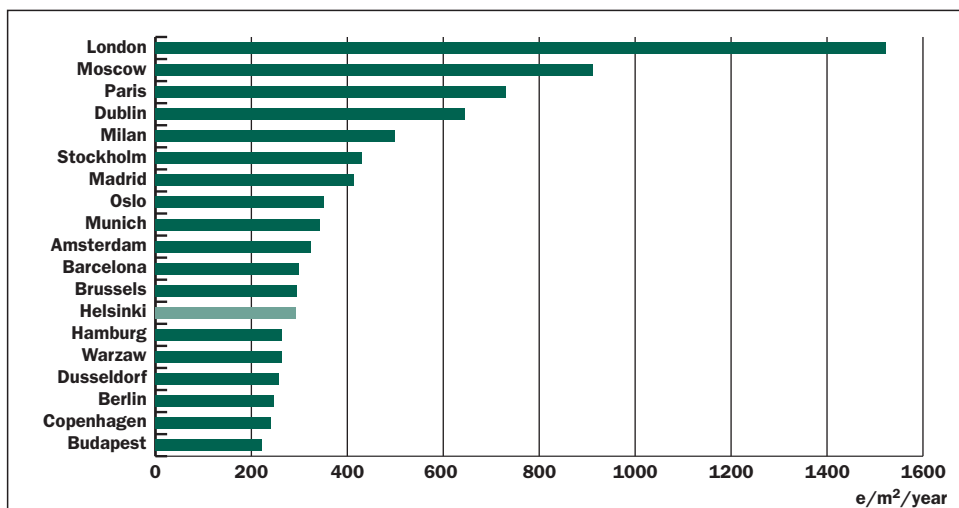
(Sources: Jones Lang LaSalle, Catella Property (Helsinki))

Prime Office Yields, 4th quarter 2006



(Source: Jones Lang LaSalle, KTI (Helsinki))

Prime Office Rents, 4th quarter 2006



(Source: Jones Lang LaSalle, KTI (Helsinki))

The vacancy rate for the whole Helsinki region currently stands at 7.9%, and for Helsinki itself at 7.1% - and has thus decreased markedly during the past few months.

7.3 Yields

Attractive yields have been the major driver of international investors' interest in the Finnish property market. Yields have remained well above those of other European capitals. During the past year, yields have been facing downward pressures caused mainly by strong and diversified investment demand. Yields do, however, still offer a premium over the financing cost.

"Office yields are still attractive in Helsinki"

7.4 Rental levels

In comparison with other European centres, rental levels have remained relatively moderate in the Helsinki CBD. Rents have reacted to the changes in demand for office space. Despite the tightening competition from other office locations, the Helsinki CBD has retained its attractiveness as the most preferred office location in the area, which can be seen in the relatively strong development of rental levels. Compared to many other European centres, the office market in Helsinki can be regarded as quite stable in terms of both rents and vacancies.

The increase in rents in prime office locations, which started in late 2005 in the Helsinki CBD, has now spread to other locations and also accelerated slightly. There are strong expectations that rents will continue to rise in the near future, supported by a recovery in demand for office space.

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In addition to these two Finnish property funds, Aberdeen Group manages its own funds in other Nordic countries, Europe and Asia. The total equity of Aberdeen funds is around €2.5 billion.

Aberdeen was named the leading real estate Investment Manager globally, in Western Europe and the Nordic & Baltic regions by the Euromoney Awards 2006 for Excellence in Real Estate. For more information, visit: www.api.fi, www.aberdeenpropertyinvestors.com

Citycon is a property investment company specialising in retail premises and engaging in the retail property business throughout the ownership chain, i.e. the company owns, manages, leases and develops shopping centres and other large retail units. The fair value of its property portfolio at the end of 2006 was € 1,447.9 million. Leading the Finnish shopping centre business, on 31 December 2006 Citycon owned a total of 26 shopping centres – 19 in Finland, five in Sweden, one in Estonia and one in Lithuania. In addition, the company owned 53 other retail properties in Finland and Sweden.

Listed on the Helsinki Stock Exchange since 1988, Citycon is a Mid Cap company in the Financial sector on the OMX Nordic Exchange. Its year-end market capitalisation totalled € 844.3 million and its share closed at € 5.05. International investors accounted for 94.1 per cent of the company's shareholders at the end of 2006. Citycon is included in international indices of property investment companies. For example, the FTSE EPRA/NAREIT Global Real Estate Index serves as a benchmarking index for international investors, tracking share-price performance and total return. For more information, please visit www.citycon.fi

Eurohypo is a global specialist bank for commercial real estate and public finance, ranking second among German commercial banks together with its parent company, Commerzbank, with total assets of € 632 billion. In commercial real estate, Eurohypo, named by Euromoney

as the best commercial bank, has a credit volume of € 95 billion and is the market leader in Germany, a major player in Europe, a key player in the USA and a newcomer in Asia-Pacific. It also boasts a track record in bond issuance, syndication and securitisation.

Backed by a global network of expert teams, in 2006 the Eurohypo office in Helsinki increased its underwriting volume with leading Finnish and international investors to more than € 300 million, representing growth of over 50% on the previous year. For additional information, visit: www.eurohypo.com

Greater Helsinki Promotion Ltd. is a joint-stock company founded to promote the Helsinki region in order to increase foreign direct investments in the area. Jointly owned by the cities of Espoo, Helsinki, Vantaa and Kauniainen together with the Uusimaa Regional Council, the Greater Helsinki Promotion's mission is to highlight the region's strengths and business opportunities.

Efficient and functional, yet creative, the Helsinki region offers viable business opportunities for companies large and small. Close co-operation between universities and companies enables top-of-the-line research and testing possibilities, while functional access to all global markets offers an abundance of new business opportunities. Our service concept will ensure that companies interested in exploring the possibilities offered by Helsinki will be aided in every possible way to enable their smooth transition into the area. For further information, visit www.inhelsinki.com

HSH Nordbank AG is one of the leading real estate, special lending and investment banks in Northern Europe, with total assets of EUR 190 billion. HSH Nordbank has a strong presence in Northern Europe, Germany, the Nordic countries and the Baltics as well as in the USA and Asia. We focus on investment companies, real estate corporations, project developers and structure financing and participate in consortiums designed for purchasing, constructing and renovating/remodelling office and commercial space, shopping centres, logistics, hotels and residential properties. In real estate we can provide comprehensive services from conventional finance based on mezzanine and derivatives to real estate investment banking. The HSH Nordbank, Helsinki Branch has been serving the Finnish real estate market since 1998, offering the best financing solutions to its clients with the help of specialist property teams. For more information, visit: www.hsh-nordbank.fi

IVG Polar Ltd., founded in 1952, is a real estate investment company concentrating on owning, leasing and developing office and logistical premises, the main thrust of its operations being in the Helsinki Metropolitan Area. The balance sheet market value of IVG Polar's real estate portfolio totals € 278 million, while its leasable facilities in investment properties amount to 213,000 sqm, with 415 customers operating in them. The company is a member of the German IVG group (IVG Immobilien AG), which is in the real estate investment business. For more information, visit: www.ivgpolar.fi

NCC is one of the leading housing and development and developing companies in the Nordic region. The Group had annual sales of € 6 billion in 2006, with 21,000 employees. NCC is active throughout the value chain in its efforts to create environments for work, living and communications. NCC develops residential and commercial property projects and builds offices, industrial facilities, housing, roads, civil engineering structures and other types of infrastructure. The Group's geographical focus is on the Nordic region and Russia.

In Finland NCC has three companies: NCC Construction, NCC Property Development and NCC Roads. Of NCC Construction's subsidiaries, NCC International is responsible for overseas construction and Optiplan Oy for building design. NCC has a nearly 30 year's experience with development projects and construction in Russia, the CIS, and the Baltic states. NCC's annual turnover stands at € 743 million and it employs 2,500 people.

NCC Property Development acquires, develops, sells and leases office-, retail- and logistic premises and provides services for the whole life-cycle of the properties. Recently, it has been active in developing new business concepts in its various Business Parks, Business Quarters, Shopping Centres and other Retail projects. For more information, visit: www.ncc.fi

Newsec Oy is the leading real estate services company offering full coverage of integrated professional and advisory services in Finland. These services cover investment transaction advisory and brokerage services, valuation and analysis, real estate consultancy, Asset and Property Management as well as Corporate Services.

Founded in 1989, the company is part of the Newsec Group, headquartered in Stockholm, Sweden.

Today, Newsec has a management portfolio worth over € 7.5 billion in the Nordics and over € 1.9 billion in Finland. Newsec has transaction experience amounting to € 8.1 billion and the largest and most experienced team of analysts in the Nordic region. In a survey carried out by the Euromoney magazine, Newsec Oy was nominated Finland's best consultant in real estate advisory services, real estate research and real estate corporate services in 2006.

The company has over 500 employees in the Nordic region and 75 in Finland, with offices in the Helsinki, Turku and Tampere regions. Its clients are amongst the leading Finnish and international real estate investors and corporations. For more information, visit: www.newsec.fi or www.newsec.se

Ovenia Oy has been in business in its present form since 2003 (established 1980, and restructured 2003). Ovenia provides several real estate investors with property and asset management services. Ovenia manages Finland's largest real estate volume (€ 6.0 billion), offering tenants a highly competitive range of premises and expertise in retail, offices, logistics, production and housing. All Ovenia's services are easily accessible via a nationwide network and the Internet. Ovenia is trimmed to top-quality services in maintenance and project management, leasing operations, tenant management and advisory services including customer satisfaction. Its wealth of know-how is channelled

to real estate investors as environmental advisory services supported by novel operative systems. For more information, visit: www.ovenia.fi

RAKLI - 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. Members include e.g. pension funds, real estate companies and other investors and owner occupiers that own, operate and finance income-producing real estate. RAKLI is recognised as the premier real estate association in Finland. It provides a network for real estate professionals to discuss mutual challenges, to exchange ideas and to share experiences and knowledge. Currently, promoting the adoption of a REIT-structure in Finnish legislation is one of RAKLI's main targets. For more information, visit: www.rakli.fi

The Real Estate Education and Training Institute, founded in 1978, is the first real estate education and training institute to offer specialist postgraduate education and training for asset, property and facilities management professionals in Finland.

The Real Estate Education and Training Institute centres on real estate and construction businesses, providing educational programmes for a wide range of such businesses. The Institute cooperates closely with the entire industry in providing high-quality education services, e.g. industry-related programme certifications based on the lifelong learning philosophy. Together with major national real estate organisations, the Institute also supports national certification systems for real estate professionals. These education programmes are mainly postgraduate and include higher professional studies both for executive and senior/junior professionals. Participants are mainly professionals representing the full range of real estate business sectors.

The Real Estate Education and Training institute and its key professionals are members of Finnish and international organisations and associations (e.g. EuroFM, IFMA). The Institute's owners, partners and collaborators are widely representative of the real estate community and include all major associations in Finland, two major housing investors and domestic and international partners. For more information, visit: www.kiinko.fi

SATO Corporation (SATO Oyj), founded in 1940, is a Finnish private company specialising in residential real estate investments, and housing and construction services. Finnish industrial and trade corporations and financial institutions are the main owners of SATO. During its history, the company has developed over 220,000 residential units representing 10% of the total in Finland. Currently, the company owns 23,000 flats and apartments for rental purposes, and it builds 700-800 owner-occupied apartments per year. SATO's total housing construction is around 1,000 new dwellings per year.

SATO's operational focus is on the capital area and on the regions around the cities of Tampere, Turku, Oulu and Jyväskylä. In 2006 SATO's turnover was approx. € 301

million and its assets were valued at approx. € 1,170 million. For more information, visit: www.sato.fi

The SEB Group is a Northern European financial group providing services for corporations, institutions and private individuals with 10 home markets in the Nordic and Baltic countries, Germany, Poland and Ukraine and, through the acquisition of PetroEnergoBank in St Petersburg, now also in Russia. The Group is represented in some 20 countries around the world and has a staff of around 20,000. The 150th anniversary of the SEB Group was held in 2006.

In 1984, SEB founded a representative office in Finland and, 10 years later, opened a branch office. Of the SEB Group's business activities, 5 are represented in Finland: Merchant Banking, SEB Leasing, asset management (Gyllenberg), investment banking and SEB Kort - Diners Club. In Finland, the banking group employs some 300 persons.

In 2004, the SEB Group decided to consolidate its group-wide activities in the real estate business within the Commercial Real Estate unit. In the following year, a Commercial Real Estate unit was established in Helsinki as part of SEB Merchant Banking. Merchant Banking works with large and medium-sized Finnish corporations, financial institutions and foreign companies with subsidiaries in Finland. Commercial real estate currently accounts for 15% of SEB Group's total lending. For more information, visit: www.seb.fi

Skanska is one of the world's leading construction groups with expertise in construction, project development of commercial and residential projects and public-private partnerships. Skanska is committed to finding innovative solutions by cooperating closely with customers and combining the company's international expertise with local presence. The Group currently has 56,000 employees in selected home markets in Europe, in the US and Latin America. Sales in 2006 totaled € 13.6 billion.

Skanska Oy is one of the 14 business units of the Skanska Group. Skanska Oy's primary market areas are Finland and Estonia. In Finland, Skanska is the leading construction company in the residential, office, business, industry and infrastructure sectors. Skanska is committed to building good living and working environments and helping to create convenient traffic connections. For more information, visit: www.skanska.fi

Sponda Plc, established in 1991, is the largest real estate investment company listed on the Helsinki Stock Exchange in terms of market capitalization. The market capitalization of Sponda's share capital on 31 December 2006 was EUR 952 million. Sponda's business concept is to own and develop office, retail and logistics properties that promote the business success of its clients.

Sponda acquired the entire share capital of Finnish real estate investment company Kapteeli Plc on 14 December 2006 for EUR 943 million, making Sponda one of the leading real estate investment companies throughout the Nordic countries.

The leasable area of Sponda's property portfolio is about 2 million m². The portfolio comprises 250 investment properties, 218 of which are office and retail properties and 32 logistics sites. Most of these are situated in the Helsinki Metropolitan Area.

From 1 January 2007 Sponda was organized into five business units: Office & Retail Properties, Logistics Properties, Property Development, Russia & the Baltics, and Real Estate Funds. For more information, visit: www.sponda.fi

YIT is a service company focused on building, developing and maintaining technical structures of living environment. It is the Nordic market leader in building systems services and Finland's largest construction company and it operates locally also in the Baltic countries and Russia. In 2006 the Group had net sales of € 3.28 billion and personnel of 22,300 employees in eight countries. YIT's share is listed on the Main List of Helsinki Exchanges. For more information, please visit: www.yit.fi

KTI Finland is an independent service company and research organisation providing information, analysis and research services for the Finnish real estate industry. KTI maintains extensive databases on the rents, costs and returns of the Finnish property market. On the basis of this information, KTI provides benchmarking services for property investors and publishes market information. The KTI Index is an internationally comparable measure of property investment returns covering some € 16 billion in property assets representing ca. 60% of the total investment market. KTI has established relationships with all major property investors in Finland and with many significant international research organisations and service companies. KTI has a staff of 17 professionals. For more information, visit www.kti.fi

Key terminology

Property	Kiinteistö
Rent	Vuokra
Rental agreement	Vuokrasopimus
Tenant	Vuokralainen
Landlord	Vuokranantaja
Tax	Vero
Investment	Sijoitus
Return	Tuotto
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
Office (space)	Toimisto(tila)
Retail	Liiketila, myymälä(tila)
Shopping centre	Kauppakeskus
Industrial	Teollisuus
Manufacturing	Tuotanto
Warehouse	Varasto
Logistics	Logistiikka
Hotel	Hotelli
Residential	Asunto
Building	Rakennus
Site	Tontti

Useful links

The Finnish Economy

Helsinki Stock Exchange
www.omx.fi

The Research Institute for the Finnish Economy
www.etla.fi

Finnish Tax Administration
www.vero.fi/english

Statistics Finland
www.stat.fi

Bank of Finland
www.bof.fi

Invest in Finland Bureau
www.investinfinland.fi

Property Market Information

Catella Property
www.catella.fi

KTI Finland
www.kti.fi

RAKLI – the Finnish Association for Building Owners and Construction Clients
www.rakli.fi

RAPAL
www.rapal.fi

Real estate companies

Citycon plc
www.citycon.fi

IVG Polar Ltd
www.ivgpolar.fi

Sato Corporation
www.sato.fi

Sponda plc
www.sponda.fi

Real estate Services

Aberdeen Property Investors Finland
www.api.fi

NCC
www.ncc.fi

Ovenia Oy
www.ovenia.fi

Skanska
www.skanska.fi

Newsec
www.newsec.fi

YIT
www.yit.fi

Financing services

Eurohypo
www.eurohypo.com

HSH Nordbank
www.hsh-nordbank.fi

SEB Merchant Banking
www.seb.fi

Other

Greater Helsinki Promotion Ltd.
www.inhelsinki.com



in co-operation with:



CITYCON



...in Helsinki!



ovenia



SEB

SKANSKA

Sponda

Together we can do it.



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