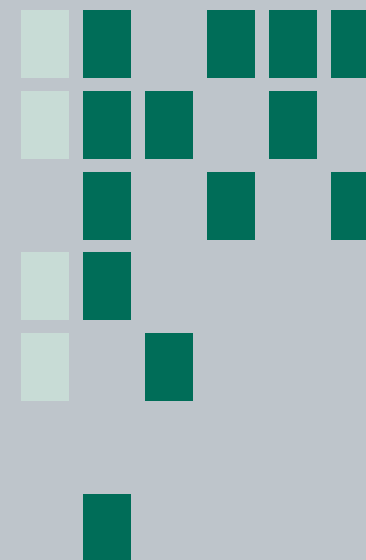


The Finnish Property Market 2002



KTI Finland - in co-operation with Citycon Plc, Dividum Oy, Kapiteeli Ltd, Polar Real Estate Corporation, Rakli, Sponda Plc, Julius Tallberg Real Estate Corporation, Technopolis Plc



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Preface

This publication is the first annual update of the report "The Finnish Property Market 2001", which was published for the very first time in spring 2001. As its predecessor, the publication aims at satisfying the information needs of international investors and other types of players interested in the Finnish property market. In order to maintain continuity, the structure of the report has remained almost unchanged. The publication aims to cover the basic facts for getting an impression of the market structure and practices in the Finnish 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 was sponsored by seven major Finnish property investment companies: Sponda Plc, Kapiteeli Ltd, Citycon Plc, Dividum Oy, Polar Real Estate Corporation, Technopolis Plc and Julius Tallberg Kiinteistöt Oyj together with Rakli, the Finnish Association for Property Owners and Construction Clients. The authors thank the sponsors for their assistance.

The report will be updated and published annually in the future. The report is also available in PDF format at www.kti.fi.

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1. Basic facts about Finland

1.1 Finland is a modern democracy

Finland has been an independent parliamentary democracy with a republican constitution since 1917. At the beginning of 1995, Finland became a member of the European Union (EU). The Finnish Parliament is unicameral and consists of 200 Representatives elected for a term of four years at a time. In the current Parliament, the biggest parties are the Finnish Social Democratic Party, the Finnish Centre and the National Coalition. The new Parliament will be elected in March 2003. The head of state is the President of the Republic, who is elected for a term of six years. The current President, Mrs Tarja Halonen, was elected in 2000.

Finland has a long tradition of international relations and co-operation, which has been strengthened through its membership of the EU. From the beginning of its membership, Finland has been at the core of the EU's decision-making, and has shown a strong commitment to European integration. While remaining militarily non-allied, Finland actively works to strengthen the EU's common foreign and security policy. Finland has a long history of political and economic co-operation with the other Nordic countries (Sweden, Norway, Denmark and Iceland). Finland also has, due to both geographical proximity and a sense of joint history, close relations with Estonia and the other Baltic countries. The growing markets of Russia are also geographically easy to reach from Finland, and Finland has long and established trade relations with Russia. In the EU, Finland is actively pursuing a Northern Dimension policy with the aim of enhancing co-operation with Russia and other partners.

"The Helsinki region is dominating the Finnish economy"

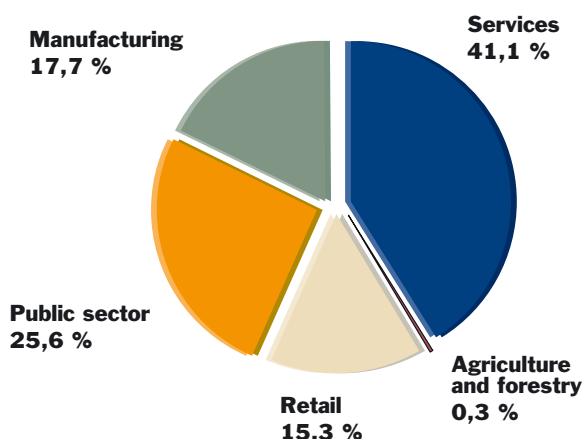
1.2 The attractiveness of the five growth centres have remained stable

Finland has a population of 5.2 million people. With a land area of more than 338,000 km², its average population density is 16.9 per km².

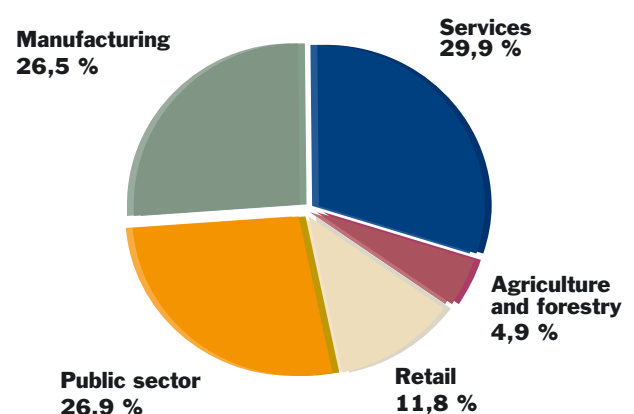
The capital of Finland is Helsinki with 555,000 inhabitants. The Helsinki region, comprising the city of Helsinki and eleven neighbouring municipalities (Espoo and Vantaa being the largest), has a population of 1.2 million – 23% of the country's whole population. The Helsinki region has been showing strong growth in recent years in terms of both population and its share of economic activity. The Helsinki region currently represents almost 30% of the jobs and about one third of the GDP of the entire country. Since most industries are represented in the Helsinki region, it has a wide economic base that gives it increased sustainability. In 2001, the population of the Helsinki region increased by 13,500. During the same period, total output increased by about 3% in the Helsinki region compared to -0.5% in Finland as a whole. The growth has mainly been based on the strong development of business-to-business (B2B) services (mainly IT and related). During the last 5 years, the turnover of the B2B service sector has grown by 100%. The proportion of services is significantly higher in Helsinki (over 40% of the jobs) compared to Finland as a whole.

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

Percentage of jobs (%)
HELSINKI REGION 2001



Percentage of jobs (%)
WHOLE COUNTRY 2001



(Source: Helsinki Chamber of Commerce: Business outlook 2002)

Other big cities in Finland include Tampere, Turku, Oulu and Jyväskylä.

Tampere is a growing region with a population of 294,000 situated 170 km north of Helsinki. Tampere has a long history as an industrial city, with the textile and metal industries playing a dominating role. Recently it has also successfully profiled itself as a modern centre of information and communication technology both in terms of offering high-level education and as an active business environment. The Tampere University of Technology in particular has supported this positive development by creating a supportive environment for start-up companies.

Turku is the former capital of Finland, and is situated 160 km west of Helsinki. The Turku region has 282,000 inhabitants. Its economic strengths are based on its three universities with long traditions and several strong industrial groups. However, the Turku region was one of the areas that suffered the most from the collapse of trade with the Soviet Union in late 1980s because of its high dependency on the textile, food and shipbuilding industries and, in many respects, it is still in a transition phase after the recession. The Turku region is currently one of the growth centres in Finland, but it still suffers from a relatively high level of unemployment. Turku is aiming at profiling itself as a modern centre for life sciences and biotechnology, a profile based mainly on high-level education in the field and its long traditions in the medical industry.

Oulu is Finland's northernmost growth centre, situated 600 km north of Helsinki. The Oulu region has been one of the fastest growing areas in Finland since the mid-1990s. Nowadays it has a population of 172,000. The Oulu region is regarded as one of the Finnish centres of information and communication technologies as well as a centre of the health-care industry.

The Jyväskylä region is an active area in the centre of Finland, 270 km north of Helsinki, with 134,000 inhabitants. Jyväskylä is a university town with a strong emphasis on high technology as well as wood and paper technology. It has recently been active and successful in developing co-operation between the public and private sectors in order to increase the region's attractiveness both as a living and business environment.

1.3 The Finnish GDP will grow by about 2% in 2002

Finland joined the European Monetary Union in 1999 and, since the beginning of 2002, the euro has replaced the Finnish mark (1 EUR = 5.9 FIM). The transition phase passed smoothly and the new currency has been fully accepted by Finnish citizens and corporations. At the moment, Finland is the only Euro country in Northern Europe.

Through the latter part of the 1990s, Finland had one of the best performing economies in the EU and Europe. The growth rate of the GDP varied from 3.5 to 6.3% between 1995 and 2000.

Map of Finland

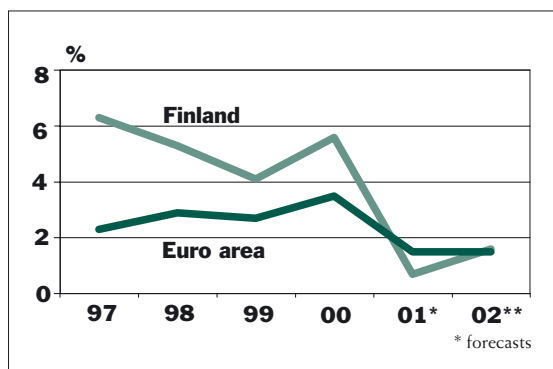


In 2001, the economy suffered from the global downturn, and the GDP started to decrease towards the end of the year with the fall in exports. As a result, the Finnish GDP only grew by approximately 0.7% in 2001. The fall was partly a result of production-line conversion in the mobile phone industry after which the demand for new models grew slowly. The launch of new models coincided with the pessimism following 11 September. However, the expectations for 2002 and especially for 2003 are more optimistic once again, and the Finnish economy is expected to grow by the average rate of the EU, about 3.5%.

"The economy is supported by strong private consumption"

The strength of the economy is especially supported by strong private consumption, which is maintained by gradually easing income tax burden and low inflation.

GDP in Finland and in the EU



(Source: Ministry of Finance)

The structure of the Finnish economy has changed markedly in recent years, which has been one of the central reasons for its good performance. Traditional dependence on the forest and metal industries has been reduced because of strong growth in the electronics and electrical industries.

"The growth of the economy is driven by electronic industries"

This shift is illustrated by the share of exports of the respective industries: from 1980 to 2001, the share of paper and graphics industries fell from 31 to 26%, whereas the share of electronics and electrical industries increased from 18 to 27% in the same period. The success of the Finnish electronics industry has been driven by global demand for electronics, especially in information technology and mobile communications. Finnish exports are forecast to grow by 3.5% in 2002 and by 7% in

2003. This growth is very strongly driven by the electronic industries – in 2002, for instance, the growth rate excluding electronic industries is expected to be slightly negative. Therefore, the insecurity of the world economy adds to the difficulties in forecasting, as the unpredictable and volatile electronic industries have a significant impact on the Finnish economy as a whole.

Inflation in Finland has been relatively high during recent years, but it will remain low in 2002 – assuming that oil price level remains stable. The inflation rate will be supported by low interest rates, and is forecast to remain at a level of about 1.6-1.8% in 2002, which is well below the EU target of 2.0%.

One of the main pressures on the Finnish economy has been the high level of unemployment since the recession in the early 1990s. In this respect, the positive development started in 1994, and continued until the downturn in the economy in 2001. The increasing supply of labour will temporarily push up the unemployment rate in 2002, but in 2003, the growth of the economy will force unemployment down again.

"The Finnish economy is strongly dependent on international economic development"

During the last decade, the proportion of exports has increased from less than one fifth of the GDP to almost 50%. As the year 2001 showed, Finland is dependent on international economic development. Therefore, the future of the Finnish economy strongly depends on major global events such as the development of energy prices and the US economy.

Key Figures - Finnish economy

	1995	1996	1997	1998	1999	2000	2001	2002*
GDP (change in vol)	3.8	4.0	6.3	5.3	4.1	5.6	0.7	1.8
Inflation	1.0	0.6	1.2	1.4	1.2	3.4	2.6	1.8
Interest rates								
3 months	5.8	3.6	3.2	3.6	3.0	4.4	4.3	3.3
5 years	7.1	6.0	4.9	4.1	4.1	5.1	4.5	4.7
Unemployment rate	15.4	14.6	12.7	11.4	10.2	9.8	9.1	9.5

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

*Forecasts

1.4 The growth of the economy has been driven by new technologies

Finland has been in the top positions in several international rankings concerning the competitiveness of the economy. A high level of education, investments in research and development and modern technology infrastructure have been identified to be among the key strengths of Finnish competitiveness. (Ministry of Finance: The Finnish Competitiveness Report, 2002). These strengths have been especially visible in the strong development of the Finnish ICT sector (information and communication technology) during the last decade. In its report in April 2002, IMD (International Institute for Management Development) placed Finland second on the World Competitiveness Yearbook scoreboard after USA. Finland's success in this ranking is partly based on significant investments in technological infrastructure, and on its position among the world's leading nations in terms of Internet connections, telecommunications and computer usage.

Information and communication technologies have played

"High level of education, investments in r&d and modern technology infrastructre are the key strenghts of the Finnish economy."

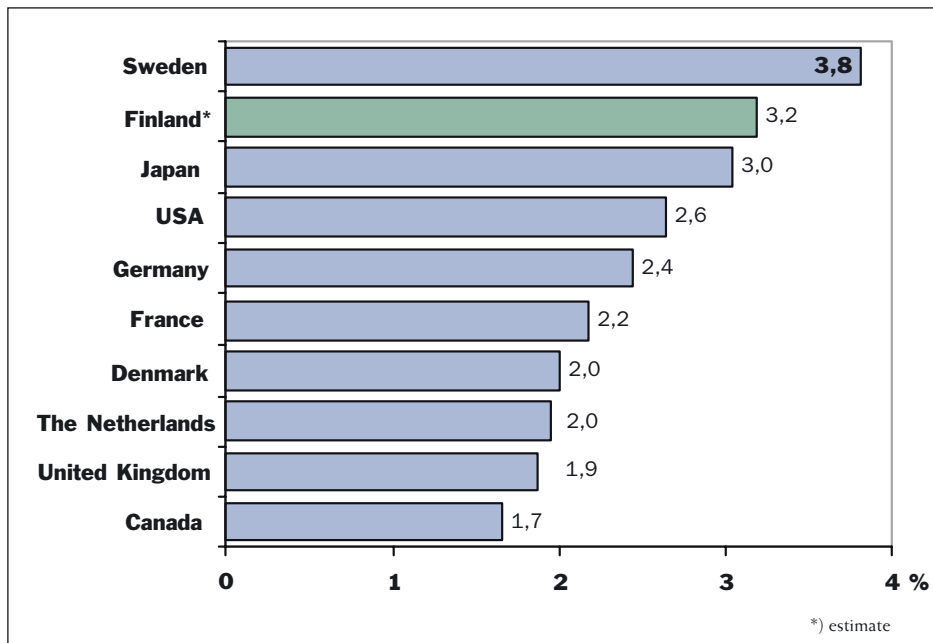
an important role in the development of the Finnish economy in recent years, and its contribution to the GDP has been higher than in any other OECD country. Currently the ICT sector employs approximately 100,000 Finns – mainly young, well-educated people in the growth centres. The ICT sector's impact on the Finnish property market is reviewed in chapter 4.4.

The Finnish ICT sector

	Key figures of the Finnish ICT sector in 1999
Gross production	21.4 MEUR
Proportion of GDP	6.9%
Exports' share of gross production	62%
Share of total exports	32%
Employed	98,000
Share of employment	4.5%

(Source: Etna and Statistics Finland)

Investments on research and development in different countries, % of GDP



(Source: OECD, MSTI database 2001)

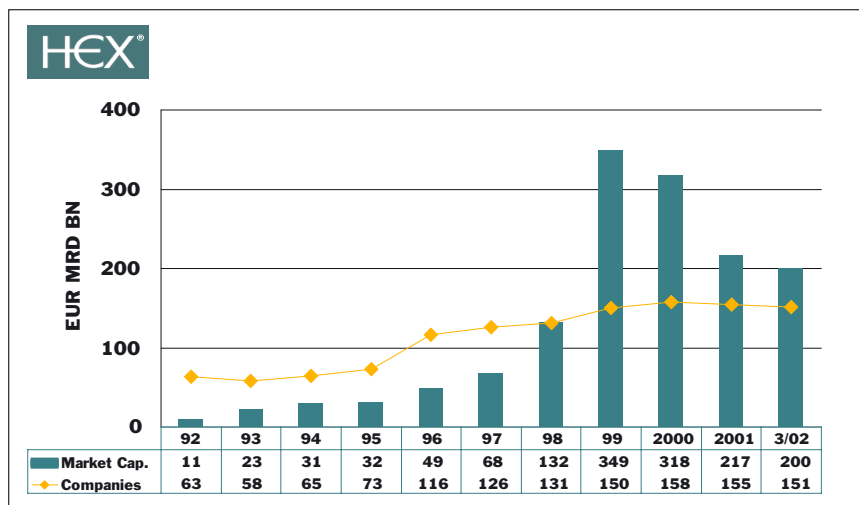
1.5 The equities market evolved in the 1990s

The Finnish equities market only began to grow in importance in the late 1980s. The market capitalisation of the companies listed on the Helsinki Stock Exchange increased from EUR 10 billion in 1991 to EUR 318 billion in 2000 – and fell to EUR 217 billion by the end of 2001. During the same period, the number of listed companies increased from 65 to 151. This growth has accelerated towards the end of the decade and has been strongly based on the rapid growth of the Finnish communications technology sector. The equities market has also internationalised rapidly: approximately 70% of the market capitalisation of the listed companies is currently in foreign ownership.

The growth and internationalisation of the Finnish equities market in recent years has been strongly based on the success of one company - Nokia - in the global telecommunications market. Nowadays Nokia represents almost 60% of the market capitalisation of the Helsinki Stock Exchange.

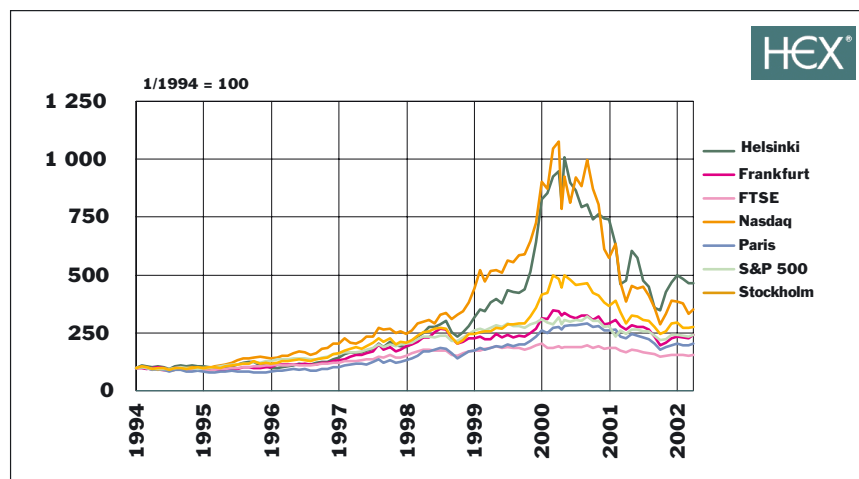
The performance of the Helsinki Stock Exchange has been strong in the last decade. In 1999 and the first half of 2000 in particular, the returns on Finnish equities investments were among the highest in the world. Since the beginning of 2001, the Finnish Stock Exchange has been suffering from the turbulence of the international economic environment.

Helsinki Stock Exchange: Market capitalisation and number of listed companies



(Source: Helsinki Stock Exchange)

HEX versus rest of the world, 1994-2002



(Source: Helsinki Stock Exchange)

The bond market

The Finnish bond market began growing in the early 1990s when the Finnish government had to finance the budget deficit by issuing bonds. The Finnish central government debt increased more than four-fold from 1991–1997. Part of this increase was caused by the devaluation of the exchange rate. Nowadays, because of Finland's membership of the European Monetary Union (EMU), the Finnish money market is closely integrated with European markets. With the rapid recovery of the economy, the central government debt has fallen rapidly, and its share of GDP is currently among the lowest in the Euro area (44,62).

Since early 1990s the interest rates have fallen rapidly as the Finnish economy has stabilised. With the EMU membership, the interest rates have been integrated to those of the Euro area since the beginning of 1998. During 2002, European Central Bank is expected to rise the interest rates slightly, assuming that the economic growth expectations are met.

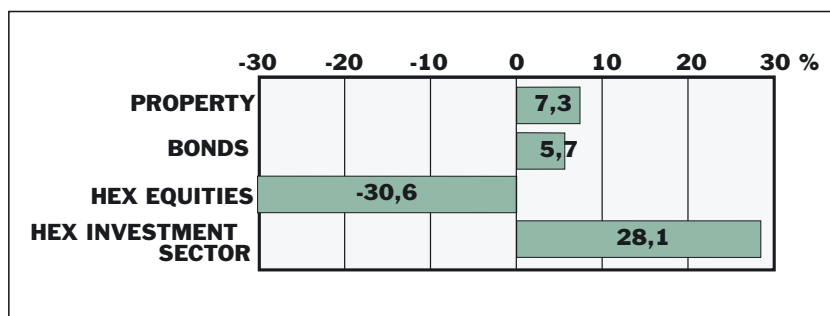
1.6 Real estate investment returns have been competitive

Since 1998, KTI Finland has been publishing a return index on the performance of the Finnish real estate investment market. The KTI Finnish Property Index is IPD compliant, meaning it is comparable to those published in other European countries measured by the Investment Property Databank, the property performance measurement house, which publishes indices for several countries. The index also enables comparisons between the performance of different asset classes.

"In 2000 and 2001, property has been the best performing asset class."

In 2001, real estate returns remained competitive compared to those of other investment vehicles in Finland. As in 2000, property was the best performing asset class in Finland with total returns of 7.3%. Compared to the previous year, total return was decreased because of the moderate change in capital values. HEX Investment Sector, which has performed very well during the last year, consists mainly of listed property companies.

Total returns of different asset classes in 2001



(Source: KTI & Helsinki School of Economics and Business Administration)

2. Institutional aspects of the Finnish property market

2.1 Forms of property ownership in Finland are simple

Owning property in Finland means owning the land and the buildings on it. This is the basic form of direct property ownership. In practice, it is very common for property to be owned by owning shares of a limited company (a real estate/housing company) founded for the sole purpose of owning the property. The legal owner of the real estate is the limited company and the shareholder(s) of this company have the right of possession (physical control and occupancy) of a specific apartment/amount of space in the property. The real estate or housing company is responsible for the management and upkeep of joint facilities, for which it collects a maintenance fee. 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 as collateral for loans.

This form of ownership makes it more flexible to own property, for example, in cases where the ownership of the building is divided between several owners. The transfer tax rate is also lower (1.6%), and transactions are less complicated compared to direct ownership (4%) of real estate.

2.2 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 in transactions.

Transacting with housing or real estate company shares is very simple. As soon as transfer taxes are 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 options are possible if agreed. Only in the residential market do special restrictions exist to protect the tenant.

2.3 Planning in Finland is an interactive process

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: a regional land-use plan, the 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 made by local authorities, but the Regional Environmental Centre must be consulted in order to ensure that national goals 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.

Compared to the old legislation, the new act significantly reduced central government control and gave local authorities more extensive powers to make independent decisions in land use planning matters. It is also possible to agree on joint master plans between municipalities forming a homogenous urban area. These joint master plans require the approval of the Ministry of the Environment.

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 engagement 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.

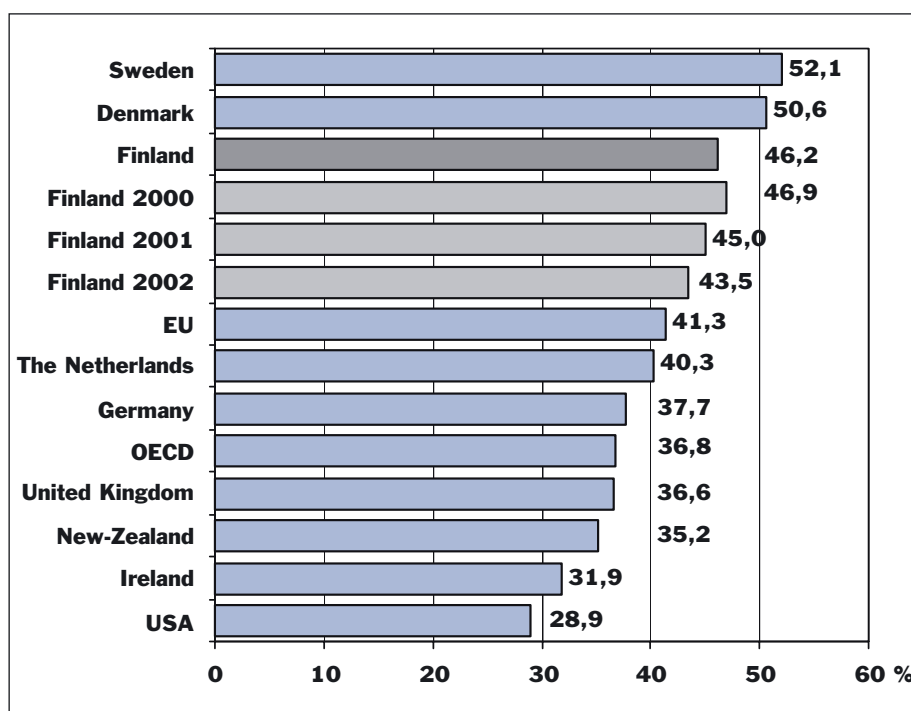
2.4 Taxation in Finland

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

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 ones¹. The highest state tax rate is 37.5% of earned income. Municipal tax rates vary between 15 and 20% depending on the municipality.

¹ A non-resident alien, e.g. one who occasionally works in Finland, is taxed on Finnish-source income only. However, tax treaties may provide that, under certain conditions, even such income may not be taxed in Finland. Non-residents are taxed at flat rate in accordance with the Non-residents' Tax Act. A person may qualify for a special tax at a flat rate of 35% during a period of 24 months if s/he receives any Finnish-source income for duties requiring special expertise and earns a pecuniary salary of EUR 5,800 or more per month.

Total tax rates in different countries in 1999 Finland 1999-2002



(Sources: Finland: Ministry of Finance
Revenue Statistics 1965-2002, Paris 2002)

Despite the actions taken in order to ease the tax burden in recent years, the total tax rate is still among the highest in the OECD countries. The margin to the EU average tax rate has, however, decreased as the total tax rate has been decreased – by easing the income tax burden – from 46.9% in 2000 to 43.5% in 2002.

The corporate tax rate in Finland is 29% of net profit. Finland has special tax treaties with several countries, which regulate the taxation rules applied to foreign residents and companies.

In the Finnish tax system, the taxes most relevant for property investment are property taxes, capital income taxes and transfer taxes².

Tax on real property

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

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

Capital income taxes

In Finland, any investment income (dividends, rental income and capital gains) is taxed at a flat rate of 29%³. Financial costs such as interest expenses that are related to the rental income are deductible.

Transfer taxes

Tax on the transfer of real property is 4% of the transfer price. When the transaction is made by buying shares of a housing or real estate company the transfer tax is 1.6% of the transfer price⁴.

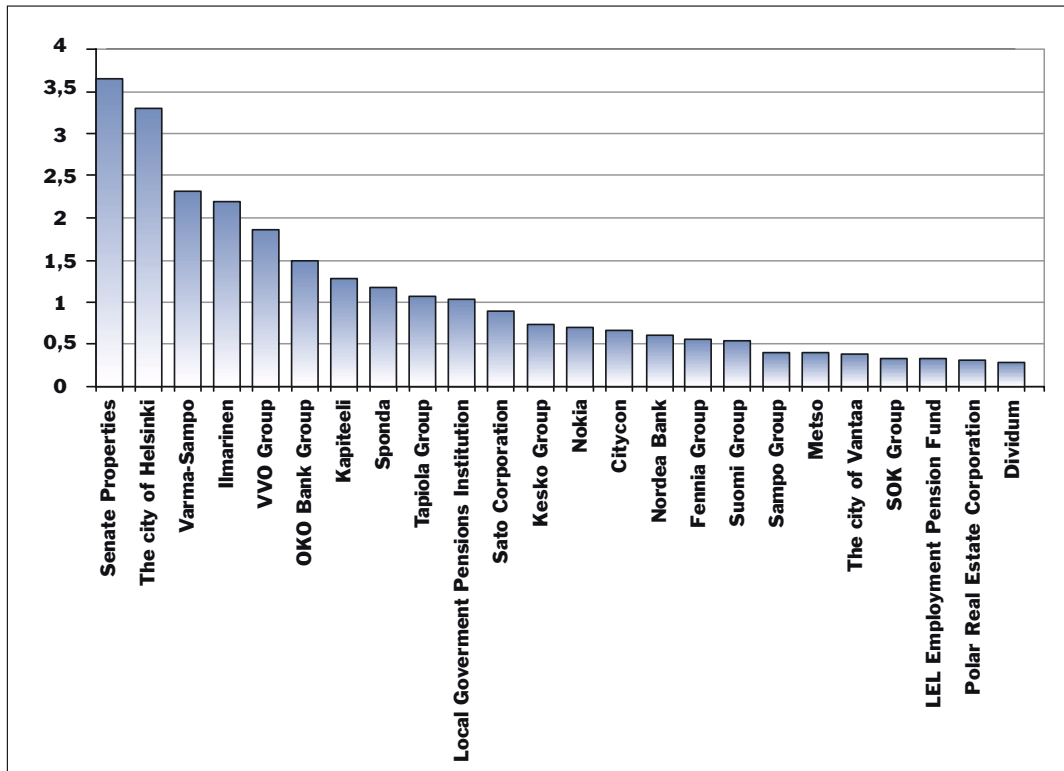
The transfer of securities is tax exempt if the transaction takes place through the Stock Exchange or if both the buyer and seller are non-residents. Shares in a real estate or housing company are, nevertheless, always subject to transfer tax. Transfer tax is usually imposed on the purchaser.

² 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 general VAT rate is 22%, which is calculated on the total charge for goods and services.

³ A special imputation system of dividends prevents double-taxation of dividends in Finland. Taxes paid by a corporation (29%) are credited to the benefit of the shareholder receiving dividends. (This is only relevant if both the distributor and the receiver are residents. A non-resident receiver's position depends on any possible tax treaty between Finland and the respective country: withholding tax/imputation credit.)

⁴ 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 right.

The biggest property owners in Finland (book values at the end of 2001, EUR billions.)



(Source: Companies' annual reports)

3. The Finnish Property Market

3.1 The rapid change in the structure of the market continued in 2001

Property portfolios are being restructured

Traditionally, owner-occupation has been common in Finland both in the commercial property market and in the residential sector. In the past, the biggest players in the property investment market have been banks, insurance companies, retailers and large industrial companies. Construction companies, who have typically acted as developers, have also played a significant role in the property market.

The structure of the Finnish property investment market changed markedly after the recession of the early 1990s. The former strong position of banks has been reduced after a severe

crisis suffered by the Finnish banking sector in the early 1990s.

Many occupiers have also actively reduced their owner-occupation.

The biggest net investor groups of the 1990s have been pension insurance companies and pension funds. At the end of 1995, their property investments amounted to EUR 2.9 billion and by the end of 2001 this figure had increased to EUR 6.5 billion. Currently, real estate's proportion of total investment portfolios of major pension funds varies from 8 to 19%.

A major shift in the Finnish property market in the 1990s was the gradual centralisation and market-orientation of the state's property portfolio. Senate Properties (the State Real Property Agency until early 2001) is currently the largest property owner in Finland, and its largest clients are universities and other government agencies. In its operations, it emphasises openness and market orientation.

The property stock of the listed property companies comprises about EUR 2.4 billion (book value at the year end 2001), and it represents only a minor proportion of the total property stock. Their proportion of the market capitalisation of the Helsinki Stock exchange is less than 0.4%. In early 2002, the listed stock even decreased because of the major transaction, of Itäkeskus Shopping Centre, between Sponda plc and the Dutch property company Wereldhave.

There are currently seven property companies listed on the Helsinki Stock Exchange. There are also a couple of larger property funds that are planned to be listed. While the first wave of public market flotations took place in late 1980s, most of the current stock in the property funds (listed and non-listed) is a result of the ownership restructuring process caused by the banking crisis of the 1990s. Some major occupiers have also made strategic decisions to outsource the ownership of properties to listed property companies.

A typical feature of the Finnish property market is that there have not been many players specialising solely in property development. As major investors typically have rather conservative strategies, construction companies and owner-occupiers have often acted as developers. In the 1990s, two major Finnish contractors were acquired by Swedish construction companies (NCC and Skanska). Nowadays, many Finnish developers/construction companies are active in developing property-related services for the entire life cycle of a property. The property development market has also interested some international players who have brought new practices to the Finnish market.

The Finnish property market's structure and practices have developed significantly in recent years. Players in the market have adopted a more sophisticated and professional approach to their real estate business management. This development activity has been strongly supported by Tekes, the National Technology Agency, through its Rembrand (Real Estate Management as a Brand) technology programme. The programme is characterised by close co-operation between industry, universities and research institutes, and it also forms a basis for international co-operation.

New entrants into the real estate service sector

The Finnish real estate service sector has been developing quickly in recent years. Up until mid-1990, the services available were mainly those related to real estate brokerage, valuation and property management. The Finnish property management service sector is relatively well developed, as property investors have traditionally outsourced the majority of property management activities, excluding those related directly to

tenant relationships.

In recent years, the supply of higher value-added services has also increased, and nowadays there are some service providers offering real estate asset management, analysis and consultancy services. Measured by the amount of companies, the real estate services' market is still dominated by domestic players, and currently there are no global service providers present in the market. The most important step towards internationalisation of the service market took place in 1997,

when the Swedish-based, now European-wide Catella Property Consultants bought the largest Finnish commercial property valuer and agent Huoneisto-markkinointi. Currently Catella is the leading service provider in brokerage and valuation. It also provides market research, corporate finance and property asset management services. Swedish asset management company Celexa

entered the Finnish market in 2000. After this, Celexa was acquired by international Aberdeen Asset Management, and they currently have a small office in Finland. During 2001, another Swedish-based company, Newsec, established its position in the Finnish market. Savill's has been represented in Finland through a co-operation agreement with a small local office. Another opening in the Finnish real estate service sector was the establishment of Iridium Real Estate in 2001. Iridium offers a variety of real estate related professional services ranging from traditional brokerage to tenant representation, boardroom consulting and advisory services.

The Finnish property investors have typically maintained very large service provider networks, especially in routine services, i.e. maintenance and cleaning. The motivation for this has been two-fold: first, the scattered service provision has not enabled nationwide agreements; and secondly, investors

have managed their dependence on individual service providers by constant bidding and large networks. One reason for extensive service provider networks is that many investors have geographically diversified portfolios and in smaller cities and municipalities the supply of services is commonly limited and

country-wide companies are often non-existent. However, the management of a diversified network consisting of as many as hundreds of service providers is bound to increase the management cost, and therefore, many investors are currently rethinking their service strategies and centralising their service management. This results in a gradual shift towards deeper relationships with fewer service providers. In spite of the rapid development of the service sector, investors prefer to keep the strategic asset management and analysis in their own organisations, and they therefore still have quite extensive professional in-house management units.

"The listed property stock represents a minor proportion of the total property stock."


"Real estate service provision has developed rapidly"

In recent years, the supply of facilities management services has increased rapidly in Finland. The growth of the market has been fuelled by a couple of major outsourcing decisions by large occupiers. In these transactions, service providers have typically bought the FM organisation of the outsourcing company and entered a partnership-type relationship with their client. The supply of FM services has mainly emerged from traditional property management or cleaning companies, who have extended their service selection towards more occupier-oriented services. Therefore, they typically have some company-specific competitive edges because of their differing origins. Some of the major service providers are of Finnish

origin (e.g. Tallberg Facilities Management, Engel), while others are part of an international company (e.g. ABB Property Management, ISS). In some cases, FM service providers have entered the Finnish market by following their major clients (Johnson Controls). A typical trend in recent years has also been the gradual entrance of the major construction companies into the service sector (YIT Rapido, Skanska, SRV Viitosen).

The rapid development of the service market has resulted in an increasing need for defining and measuring service quality and adapting these measures in the fee structures agreed between a service company and its client.

Real Estate service providers in Finland

				
Name of Company	Real estate Portfolio Management	Asset Management	Property Management	Facilities Management
ABB			X	X
Aberdeen Celexa	X	X		
Catella	X	X	X	X
Engel			X	X
Iridium Real Estate	X	X		
ISS			X	X
Johnson Controls			X	X
J. Juhola Oy	X	X	X	X
KJ-Kiinteistöjohto			X	X
Realprojekti		(X)	X	(X)
REIM-ryhmä	X	X	X	X
Skanska			X	X
Säkkiväline				(X)
Tallberg Management		X	X	X
Viitosen Management			X	X
YIT Rapido	X	X	X	X

(Source: Rakli/Locus)

Typical leasing practises in Finland

Sector	Shopping centre	Retail	Industrial (large)	Hotels	Office
Lease term	5-10	5-10	10-15	15 years	3-5 years
Basis for rent	m ² or turnover	m ² or turnover	m ²	Fixed /turnover	m ²
Rental payments	Monthly	Monthly	Monthly	Monthly	Monthly
Agent's fee (x months' rent)	Not commonly involved	1-1.5	1-1.5	Not commonly involved	1.5
Indexation	CPI	CPI	CPI	CPI	CPI
Rent review	Annually	Annually	Annually	Annually	Annually
Int. repair obligations	Tenant	Tenant	Tenant	Tenant	Tenant
Ext. repair obligations	Landlord	Landlord	Tenant	Tenant	Landlord
Building insurance	Landlord	Landlord	Tenant	Tenant	Landlord
Property taxes	Landlord	Landlord	Tenant	Tenant	Landlord

3.2 The rental market is developing quickly

Because of liberal legislation, rental practices in Finland are varied. Lease terms are typically relatively short when compared internationally, in multi-tenant office buildings a typical fixed term is from 3 to 5 years. A common term in Finnish lease agreements is "until further notice" – a contract is valid until either tenant or landlord wishes to terminate it after an agreed notice period, which might be 3, 6 or 12 months. These indefinite lease terms are especially popular in smaller office units. 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 wide variety of 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 operating costs and minor repairs. In single-tenant buildings, it is more common to apply net rents. 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. Hotel rents are also commonly based on turnover.

Lease terms and other provisions are dependent on the market situation in the respective sub-market, but mostly investors use fixed lease terms for larger units. Typical fixed-lease periods in the office market have been 3 or 5 years, especially in multi-tenant buildings. For a purpose-built, single-tenant office building, 10 years is commonly used. The need for corporations to outsource operational property assets has brought innovations in the traditional sale-and-leaseback agreements. Large retail space agreements in separate buildings often have lease terms up to 20 years. In the commercial property market, it is also common to agree on a fixed lease term, which then continues automatically for an indefinite period until one of the parties wishes to terminate it. Lease terms in hotel contracts often extend to 15 years and consist of base rent plus turnover, which is called the "Scandinavian model". Rents applied are typically net rents, and the hotel operator pays the operating and maintenance costs. For large industrial units, leases are typically triple-net leases. The lease term is 10–15 years as there is a lack of investment demand and liquidity in this market.

When a turnover rent is applied, the base rent is normally tied to the CPI. Many owners are moving away from gross leases to a lease structure that separates net rent from service charges, and this normally shifts property taxes and building

insurance directly to the tenant.

Increasingly demanding customers have created a demand for more tailor-made agreements in the Finnish market. This trend seems to further increase the variety of rental practices and lease terms: provisions are more often agreed according to the special needs of individual tenants. Generally speaking, in prime offices, the trend is towards longer lease periods, and lease provisions are becoming more sophisticated in terms of separating and defining different items included in the agreement.

Strong growth of the economy fuelled the development of large business parks especially in the Helsinki region in the late 1990s. The majority of these business parks were targeted to

specialist business sectors, mainly IT companies. Rental agreements in these business parks typically include a varying amount of services.

"Finnish leasing practises are flexible"

3.3 Investment practices

Development

Traditionally, the most dominant players in the development process have been construction companies, owner-occupiers and local authorities, who have typically acted in close co-operation with each other in development projects. Large construction companies in particular have made a considerable share of their profits through development. For this purpose they must have a considerable site stock available. In the past, construction companies typically owned a large portfolio of sites themselves, but in an effort to keep their balance sheets

light they currently often co-operate with other landowners such as listed or private property companies or municipalities. This co-operation might take various forms depending on the project in question.

In order to obtain favourable plans and building permits, developers co-operate with local authorities, who have a monopoly on planning in urban areas. The local authorities can have a dual role in the process, as they often own a lot of land, which makes them a significant player in the market. Owner-occupiers have acted as developers as many of them own important sites that cater to the needs of the core business. This is especially typical for large retail companies, who perceive space and location as one of their core resources, and are thus inclined to maintain control over this crucial asset. Some owner-occupiers are also unwilling to relinquish development profit to outsiders. Large owner-occupiers also have strong bargaining power with local authorities in planning issues, as they are also an important source of tax revenue for municipalities.

"The supply of serviced offices increased in late 1990s."

Institutional investors typically purchase projects from developers in the latter phases of the development process, usually before construction starts, although they often interact with developers from the very early phases of the project. As they usually have a conservative investment strategy, final investment decisions are often made only once the majority of the premises are pre-let. In some large redevelopment projects, institutional investors have created a pool to retain the development profit.

The emergence of real estate investment companies has brought about new practices in the Finnish development field. Real estate investment companies are often more proactive in the development process. Close contacts to space users and customer-oriented real estate management are naturally their core competencies, giving them a competitive edge in the development process.

Development consultants have had a limited role in the Finnish investment market due to extensive in-house knowledge in the above organisations. There are, however, some interesting new players in the area as some service providers have added development consulting to their service portfolio. Many major owner-occupiers have also, at least partially, outsourced their development functions.

Investment in existing property

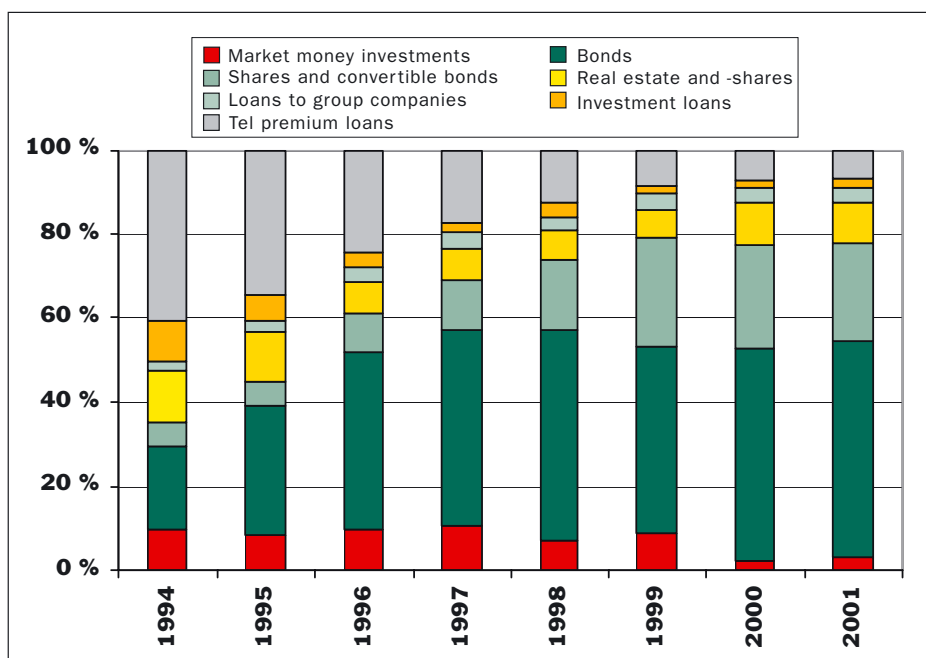
The Finnish real estate market has often been characterised as a low liquidity market. However, the volume of transactions has grown significantly in past years. For instance, of the total property stock included in the KTI Portfolio Index more than 5% was traded during 2001. In the early 1990s, changes in real estate ownership often occurred through mergers or

acquisitions of entire companies. This was typical, for example, in the banking and finance sectors. The rebirth of real estate investment companies in the late 1990s created activity as these companies are actively restructuring their portfolios. Real estate companies typically bought several properties through combinations of cash and shares. These types of arrangement have been made with some major owner-occupiers, aiding them in streamlining their balance sheets.

"The liquidity of the Finnish property market has improved in recent years"

An agent's role in the investment process varies depending on the situation and company, but in general it can be said that agents have a more prominent role in disposals. In acquisitions, companies are normally more active and approach possible sellers themselves. Agents also often act merely as catalysts to initiate the process, and the parties negotiate independently afterwards. The reason behind this peculiar process may be the fact that there are no clearly separate roles for agents representing occupiers and investors in Finland. In large portfolio transactions, the parties typically use corporate finance and investment banking expertise.

Investment portfolios of Finnish pension funds



(Source: The Finnish Pension Alliance TELA)

Pension funds have been the biggest net investors in the market in recent years. Many of them have had a clear strategy of increasing the proportion of property assets in their investment portfolios. During the last year, one of the major transactions was the acquisition of the Lepakko property in Ruoholahti, Helsinki, by the Ilmarinen pension fund. The property was purchased from Nokia, who originally planned to take up the whole property (a new development of 57,000 m²), but with the increased economic uncertainty, decided to reject the plan.

International investment demand has been low in the Finnish direct property market. In early 2002 a major transaction was the sale of the Itäkeskus Shopping Centre to the Dutch property company Wereldhave. A smaller international transaction took place in Turku, where an American fund acquired the office and production facilities of an international medical company in early 2002. The US-based Cargill has been present in the Finnish market since the mid-1990s. Another foreign investor currently present in the Finnish market is Nordisk Renting, a Swedish property company that focuses on owning large commercial premises for AAA tenants and innovative sale-and-leaseback solutions. Nordisk Renting entered the Finnish market by purchasing retail properties from Kesko, one of the two biggest Finnish retail chains. Another Swedish investor, Skandrenting has also entered the Finnish market. The Danish listed property company and developer TK Development, which specialises in retail parks has also entered the Finnish market during the last year by starting two retail parks in the Helsinki area.

"International investors show increasing interest towards the Finnish property market"

4. Market overview

4.1 The development of the Finnish property investment market in the 1990s

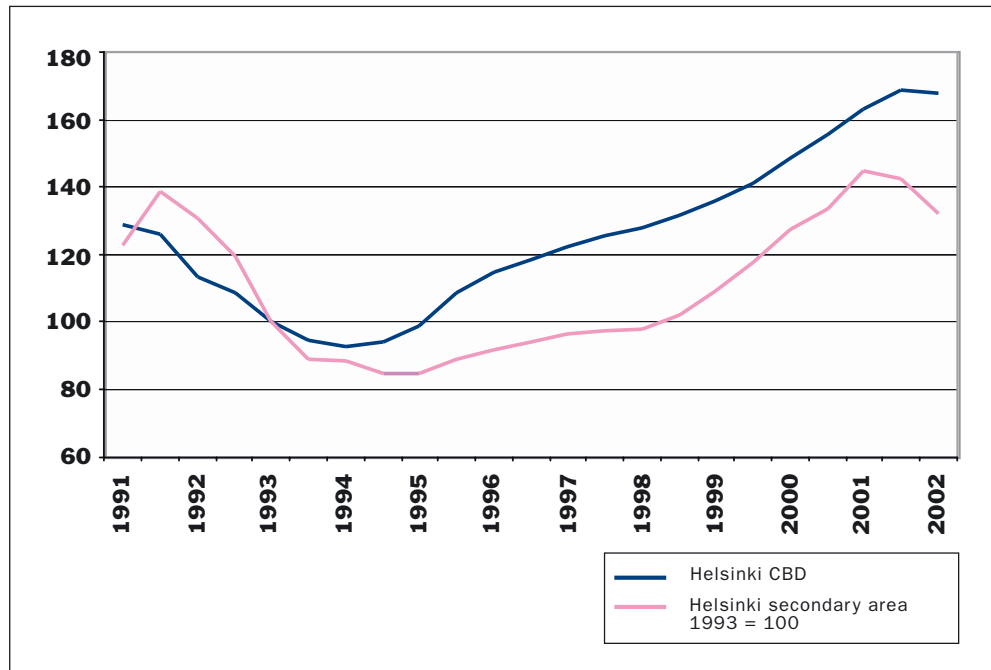
The Finnish real estate market was rather volatile in the 1990s. After the peak in 1990/1991, the real estate market collapsed as a result of a sharp drop in the national economy caused mainly by the decline in Soviet–Russian trade and poor fiscal and currency policies. Meanwhile, players in the Finnish real estate market worsened the crisis by producing a number of speculative developments in all major markets without proper investment analysis. These projects and transactions were often financed by Savings Banks, so that the crash in the real estate market strongly promoted the crisis in the finance and banking sector. By 1993, the value of real estate had fallen by half in most major markets, although selling prices usually failed to reflect the true fall and liquidity was very poor as a result. Until the mid-1990s there was very little take-up in any market, and debt financing for new projects and transactions was tight or almost unavailable. Equity players were active in the market buying real estate at discounted prices.

The demand for space started to pick up in the Helsinki Central Business District (CBD) in 1994 when the Finnish economy emerged from of the darkest era in its history and recovery began, supported by a favourable exchange rate. In 1995 the change was obvious, as office rents rose at a steady pace.

This change in rents was driven by increased demand for office space by foreign companies attracted partly by Finland's strong commitment to the EU. The growth of small Finnish professional service firms added to demand, while falling bond yields supported the underlying value of investment in real estate.

Rental growth in the Helsinki CBD slowly spread to some of the other markets in the Helsinki Metropolitan Area, especially in the surrounding areas and Espoo. By the end of the 1990s, rental growth was evident in all sub-markets in the area and in other growth centres in Finland. This can mainly be explained by job creation, as unemployment has fallen from over 15% in 1995 to about 9% in 2001.

KTI office rent indices



(Source: KTI)

4.2 Rising vacancies

In the late 1990s and early 2000s, the demand for space exceeded the supply in almost all important sub-markets. This led to a tightening market with a sharp drop in vacancies and rising rents, but still a remarkably unheated investment market. This lack of space forced occupiers to use space more effectively, and drove up office rents also outside the primary markets, especially in the Helsinki Metropolitan Area. In late 2001, with the economic slowdown, market rents started to level off and even decrease in secondary and tertiary markets. The prime markets only followed suit in early 2002. However, despite the moderate rise in vacancies, occupancy rates still remain very high in all major sub-markets. According to KTI's barometer survey, office vacancy rates are expected to rise slightly in the next 6 months.

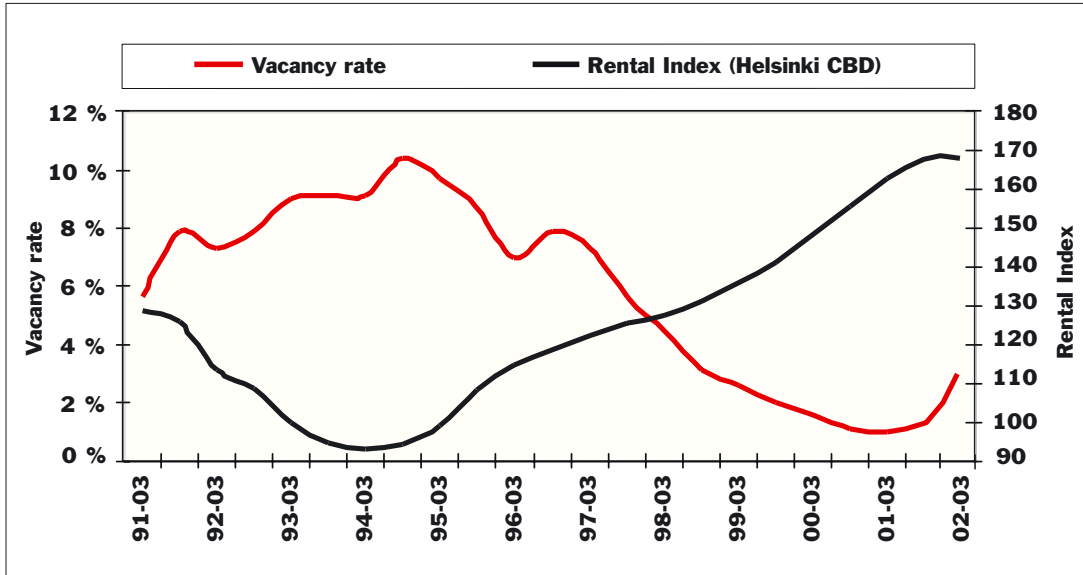
During the last recession, the retail market never collapsed as severely as the office and industrial markets. While there have been some major additions to retail space in most growth centres, a growing population and increasing purchasing power has enabled the market to absorb it. Even in the current

insecure market situation, the demand for retail space has remained strong because of the increasing private consumption. Therefore, the vacancy rates of the retail markets are not expected to rise, and rents are expected to remain at their current level during the next 6 months. The demand for warehouse and industrial space is also expected to remain stable.

The economic slowdown has reduced the demand for office space by some major businesses. Especially many IT companies based their space strategies on unrealistic growth expectations and therefore, sub-letting has become a common phenomenon in new developments in certain areas.

"Sub-letting has become a common phenomenon"

Vacancy Rate and Rental Index in Helsinki

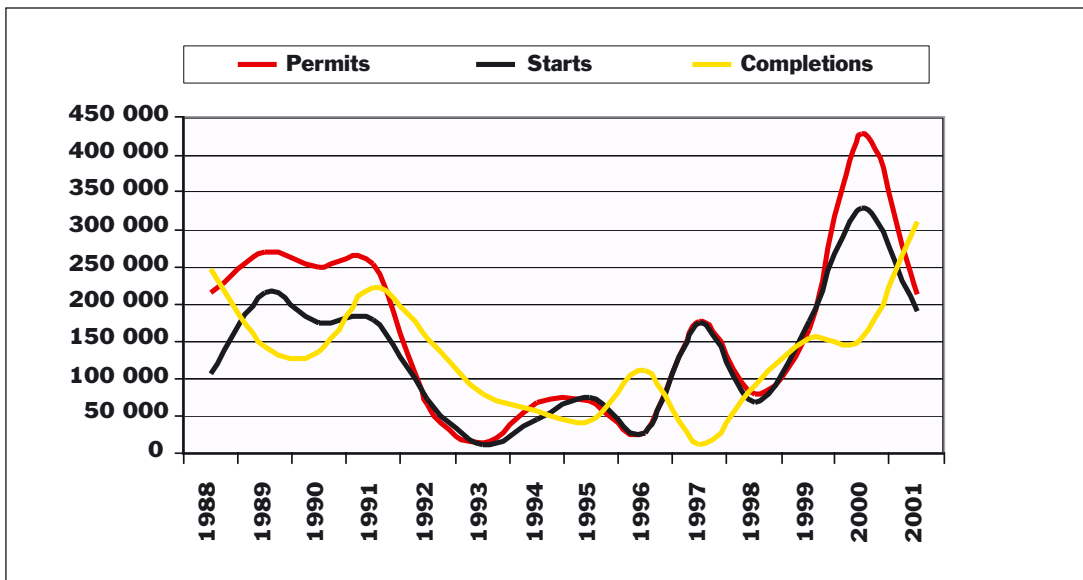


(Source: KTI and Catella)

The decrease in demand for space can also be seen in the development activity. Several new development projects have been pruned or postponed during the last year, including some major business parks in the Helsinki Metropolitan Area. However, the current practice of producing larger units in several phases enables developers to react to changes in demand, and projects can be rapidly adapted to changing market conditions. Therefore, vacancy rates in the main office markets are expected to rise only slightly from their current

low levels. Retail space development continues to be strong. Rising yields and levelling rental growth expectations diminished the capital return produced by property investments in 2001. The fall was biggest in residential properties, where the capital growth nearly stopped. Income return remained stable for all property types compared to the previous year. For warehouses and industrial properties – where income return typically plays a more important role – the returns were higher in 2001 than in the previous year.

Office construction activity in Helsinki metropolitan area



(Source: Statistics Finland)

Property markets in different regions

From the regions' perspective, the Finnish real estate market currently has three layers, each with its own characteristics. These different types of markets have reacted somewhat differently to the recent changes in market conditions.

Prime markets – especially those in the Helsinki Metropolitan Area, in particular most sub-markets in Helsinki and Espoo – are not expected to suffer severely from the temporary economic slowdown. Even there, however, the vacancy rates are increasing slightly from their extremely low levels.

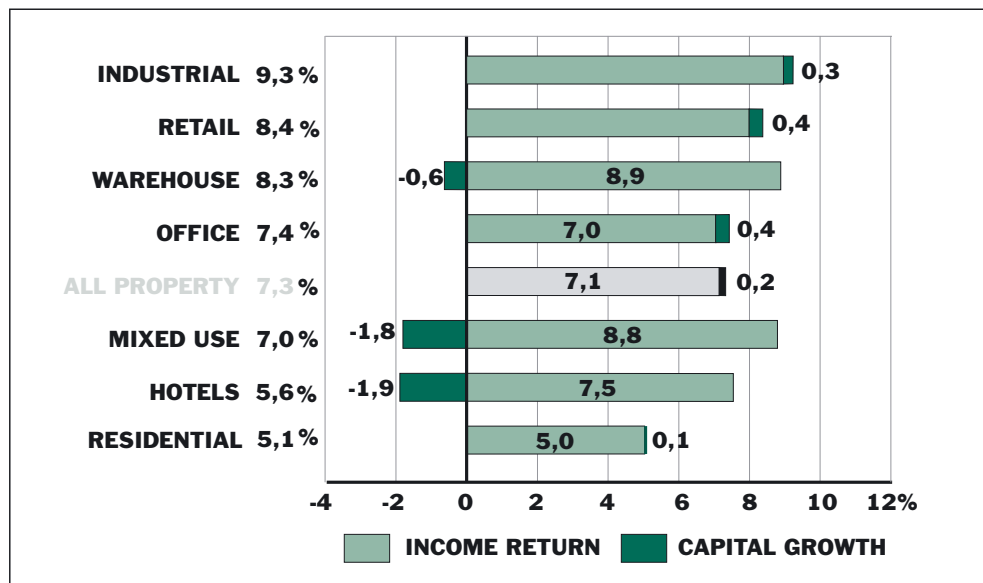
In the second-tier markets – typically the regional growth centres of Tampere, Turku, Oulu and Jyväskylä – vacancies are expected to rise with the new development projects, adding to the market supply. In these markets there are typically significant differences in rental levels of new developments and older buildings, which reduces occupiers' interest in new premises.

The third-tier markets have lower rents, sporadic development activity and higher vacancies. This is often the

case in smaller city regions, cities with structural problems and areas with a negative population flow. Some of these smaller areas have a relatively favourable economic situation, but it is often reliant on the success of a single company (the "Nokia Syndrome"). Institutional investors are generally cautious about investing in these third-tier markets, but on the other hand, several companies have recently considered relocating their activities to these areas in search of skilled labour, and this change in trend is already visible in some markets.

"Different types of markets have reacted differently to changing market conditions."

Total returns for different property sectors in 2001



(Source: KTI)

Local investors, especially are still interested in investing in these markets. In some cities, there have also been some joint projects between private and public sectors in order to generate capital flow into the market.

One of the first reactions that the increased economic uncertainty caused was the increase in the yield gaps between these different market types, which started in early 2001. Required yields have been more stable in perceived lower-risk markets compared to those with a higher expected volatility.

4.3 Finland compared to other countries

Comparing the Finnish real estate market to other relevant markets gives valuable insights. The Finnish economy has grown faster than the EU average since 1995, resulting in a rapid decrease in unemployment and rising inflation caused by the increased demand for skilled labour. As Finnish leases are most commonly tied to the CPI, real estate investments are hedged against this domestic price pressure. The total returns in the Finnish property market remained at

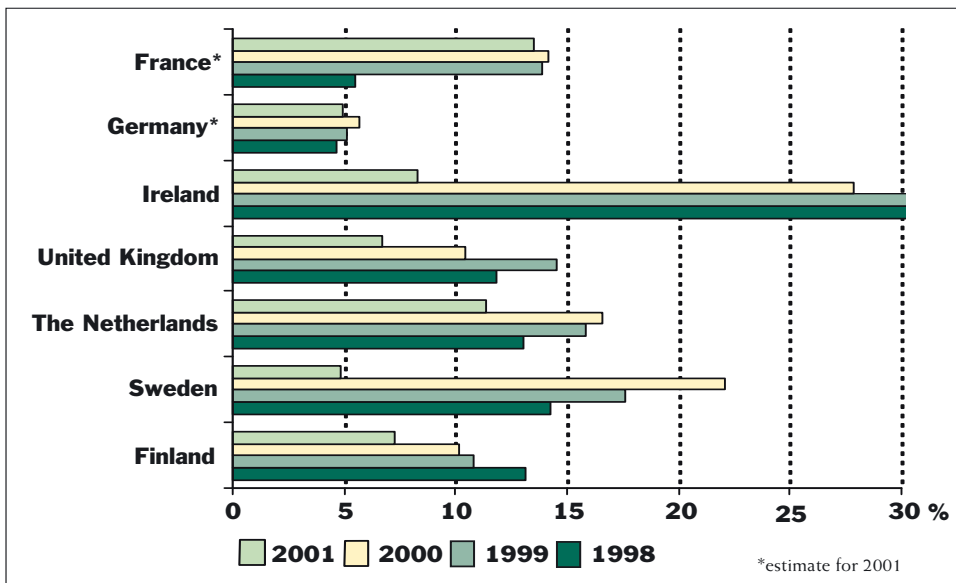
over 10% for several years, and fell to 7.3% in 2001. Despite this fall, they have been much less volatile compared to many other countries as conservative landlord behaviour has held back rent increases.

The Helsinki area dominates the Finnish market

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 are located in the Helsinki Metropolitan Area. As Finland has very little regional autonomy, most government agencies also have their offices in Helsinki, which creates additional demand pressures in the Helsinki market. Strong internal immigration from other parts of the country still strengthens the economic base of the Helsinki Metropolitan Area.

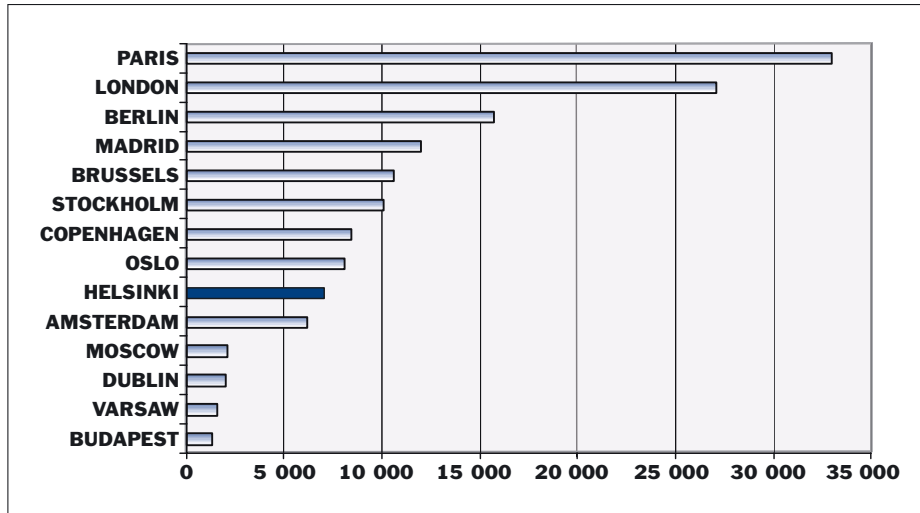
The total stock of office space is growing steadily in the Helsinki Metropolitan Area. This steady growth is based on a wide and diversified space demand.

Total returns in different countries



(Source: KTI and IPD)

Office stock, Helsinki vs. other cities ('000 m²)



(Sources: Jones Lang LaSalle & Statistics Finland)

"Vacancy rate in Helsinki is still low."

Slight increase in vacancies

In recent years, most of the development activity in the Helsinki Metropolitan Area has been built to suit larger occupiers or has been 60% or more pre-let. There have been very few speculative development projects, and therefore levelling demand has not resulted in significant vacancies. However, with some major development projects, the vacancies started to rise towards the end of 2001. By international comparison, the vacancy rate for the entire area is still at a relatively low

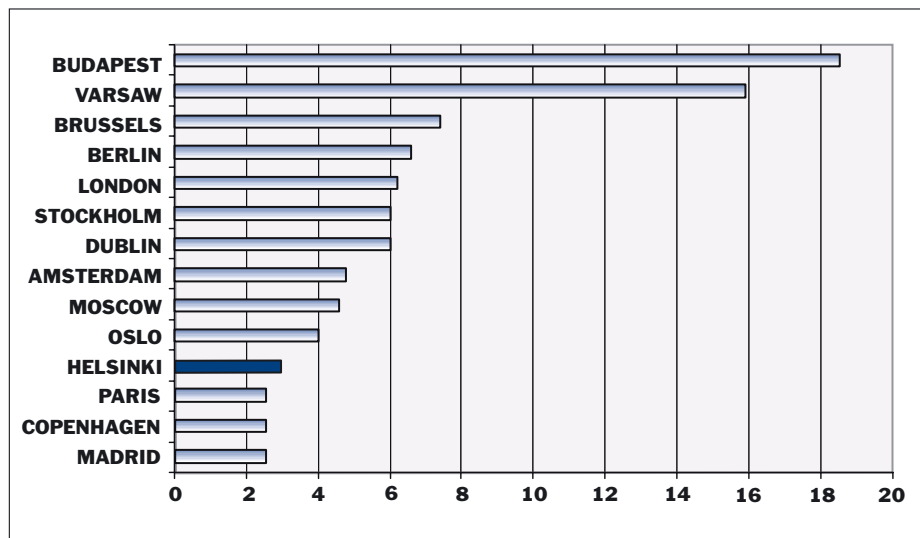
level. The current economic situation together with the increased supply is expected to increase the vacancy rate slightly, but it is still forecast to remain well below 5%, which has been its long-term average.

As most of the major office development projects are multi-phase business parks, the projects have been easily adjustable to the changes in demand. Therefore, vacancy rates are not expected to rise significantly.

Competitive yields

Investment yields have been at a rather low level for a long time as there has been a strong belief in continuous rent increases. Towards the end of 2000, the yields started to move slightly upwards as the uncertainty in the IT sector grew, and the rise has continued throughout 2001. Increasing uncertainty

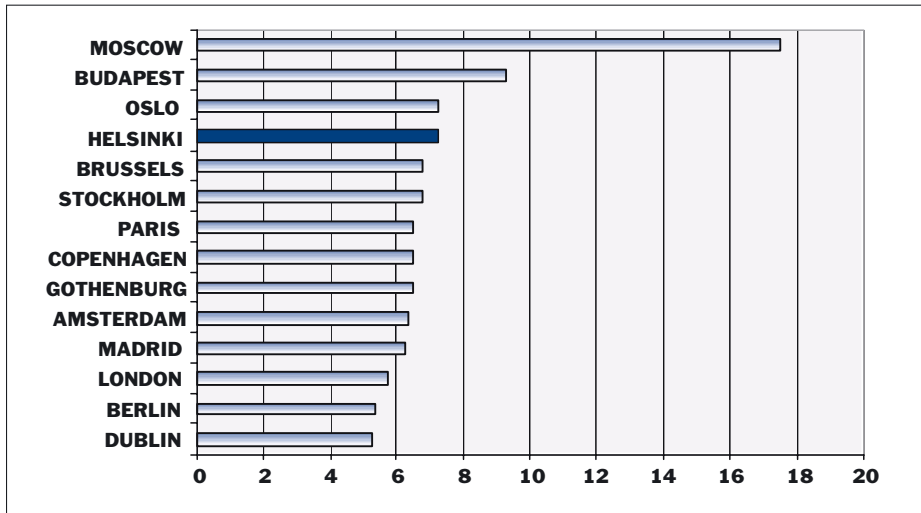
Office vacancy rates in Helsinki vs. other cities (%)



Q1/2002 for Helsinki; Q4/2001 for others

(Sources: Jones Lang LaSalle & Catella Property Consultants)

Prime office yields in Helsinki CBD vs. other cities (%)



(Source: Jones Lang LaSalle & KTI)

has affected secondary markets more severely, and the yield gaps between Helsinki and other cities have started to increase. Even in the Helsinki CBD, the yields have risen markedly but less than in other markets.

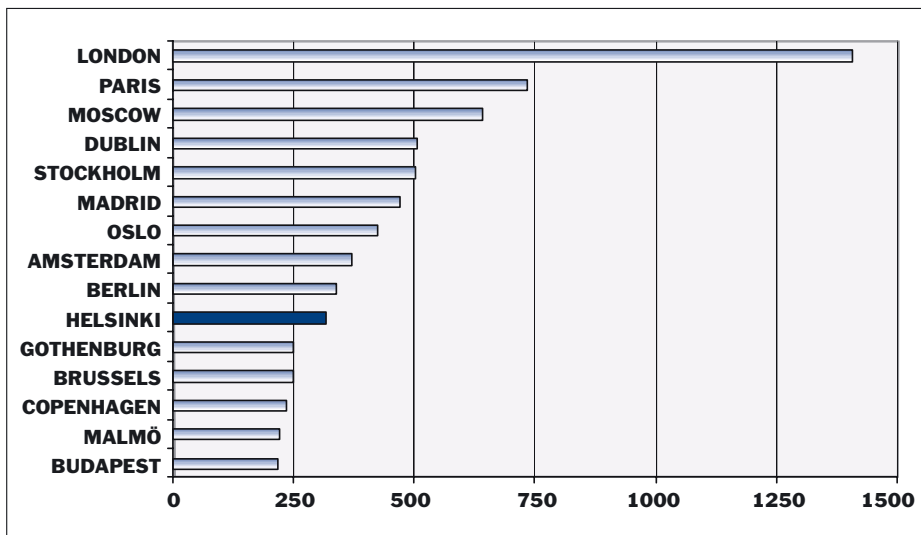
"Yields have been rising since the beginning of 2001."

Rental levels still moderate

Despite Helsinki's continuously rising office rents, rental levels remain moderate compared to many European cities, especially considering the positive demand fundamentals. When

comparing prime office rents in different European cities it can be seen that, despite sustainable rent increases in the Helsinki CBD market, rental levels are still below the average of the monitored cities. The lack of supply has not fuelled rent increases as much as it might have done. This has two possible explanations: first, Finnish investors are cautious about raising rents, as they fear that tenants might abandon prime locations. Secondly, the Helsinki CBD faces substantial competition from the surrounding area, with several major developments located less than 2 km from the centre, for some space users a substitute for a central location. However, because of the limited supply, Helsinki CBD is expected to maintain, even increase its attractiveness compared to the secondary markets in more difficult market conditions. Therefore, the rents will probably remain at their current level and start to increase again with the new growth of the economy.

Prime office rents in Helsinki CBD vs. other cities (EUR / m² / year)



(Sources: Jones Lang LaSalle & KTI)

4.4 ICT sector had a significant impact on the upturn of the market

The rapid growth of the Finnish economy has been strongly based on the strong performance of the ICT sector. Therefore, it has had a significant impact on the property market's development as well.

In 2001, KTI Finland carried out a study on the development of the space usage of the Finnish ICT sector between the years 1994 and 2001. The study, sponsored by Sponda Plc, shows that during this 7-year period the sector more than doubled its office space usage. This strong growth was enabled by the high vacancy rate at the beginning of the period and also by major new high-class development projects targeted at this growing sector. The ICT sector's strong growth also played an important role in the rapid rise in rental levels. Compared to some other markets the ICT sector's impact on the Finnish market was probably less dramatic, as the demand was spread over many regions and several sub-markets, not just prime markets and city centres.

"The ICT sector's strong growth fuelled the rapid rise in the rental levels."

The discussion on the ICT sector's impact on the property market was strengthened by the increasing uncertainty the sector faced during 2001. Previously, many investors had started

to limit the sector's proportion in their tenant portfolios. The decrease in the sector's demand for space has severely affected many sub-markets and enhanced the sub-letting phenomenon in certain market areas.

In the short term, the ICT sector has brought a new and volatile element to the Finnish property market. On the other hand, by widening the economic base of the Finnish economy, the ICT sector has also increased the diversification possibilities of property investors as well. From the investors' perspective, this volatile and demanding sector increases the challenges of the property sector and is likely to have an impact on rental practices and risk premiums.

4.5 Finland's main markets

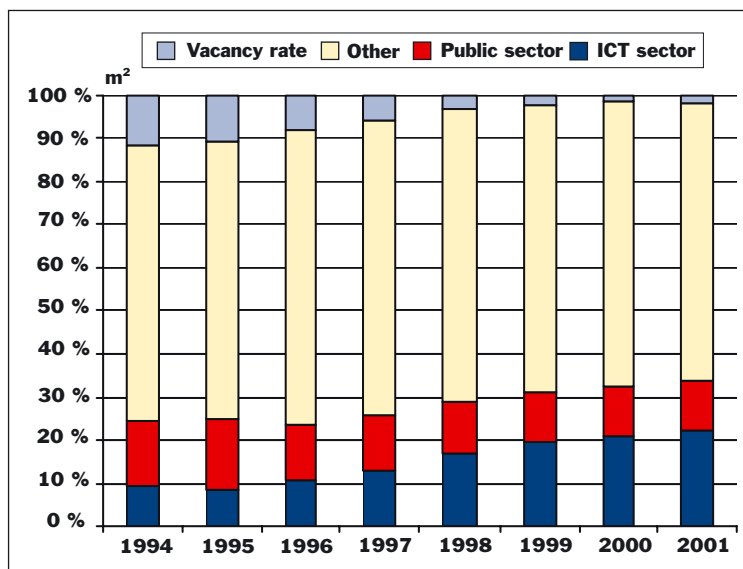
The Finnish property market is characterised by the strong dominance of its capital, Helsinki, but there are several interesting sub-markets inside the Helsinki Metropolitan Area property market. The property markets of other Finnish growth regions also offer interesting opportunities.

The Helsinki Central Business District

The Helsinki CBD is the most important single sub-market in Finland. It is multi-faceted, as this limited area is not only the most attractive office location but also the undisputed centre of retail trade in Finland. It also includes the most important administrative functions such as Parliament and the Government. Most of Helsinki's major tourist attractions are also in or around this area.

During the 1990s there was a remarkable change in tenant structure in the area when financial institutions were

The development of ICT sector's office space usage



(Source: KTI)

downsizing their space use or moving their activities to suburban locations. Meanwhile, vacant retail space was taken up by cafés and boutique-type space users. These new tenants helped to make the city centre more interesting to consumers. At the same time, the new office users were a mixture of foreign business consulting companies as well as domestic companies offering B2B services. At the end of the 1990s, the area experienced a facelift as pedestrian areas were extended and renewed as a result of co-operation between property owners and local authorities. Renovation activity is still continuing. The overall change in the area has helped the CBD to retain its dominant position in the Helsinki Metropolitan Area. For many companies, it remains the most suitable location due to its specific features as a favourable business environment.

Rental levels have been quite volatile as the pessimism in 1993 hit the centre as well. With a limited supply, rental levels have risen at a steady rate of around 10% p.a. since the mid-1990s. The rise levelled off in late 2001, but no significant decrease is expected in the most favourable locations.

The renewal of the city bus station area is scheduled to start in summer 2002. This major development project will create a modern terminal with office and retail facilities and will noticeably increase the city centre's office supply. The project is planned to be completed by 2005.

Another area in the Helsinki CBD, which is about to undergo a major change process is the Töölönlahti area. A new hotel and office building is under development in the immediate neighbourhood of the main railway station. City authorities have just accepted a new local plan with a Music House scheduled to be built beside the bay. These plans have created active public discussion as they include the removal of Finnish Rail's old warehouse buildings from the area.

The central areas and Ruoholahti

In the late 1990s, many IT, media and advertising companies favoured locations outside the very centre of the city. This resulted in rapid rise in rental levels, and accordingly, a rapid reaction to decreasing demand of these volatile industries in some market areas in 2001.

Lately, the most important new office area in the Helsinki Metropolitan Area has been Ruoholahti, located less than 2 km west of the Helsinki CBD at the starting point of a major western radial route. After a struggling start in the mid-1990s, development activity rapidly took off in 1998. Ruoholahti has attracted a variety of space users, but predominantly IT/high-tech and business consulting companies. Even during the downturn, Ruoholahti has been able to widen its economic base – for example, Finland's second biggest pension insurance company, Ilmarinen, is about to move its headquarters to

Ruoholahti, to the premises it acquired from Nokia in November 2001. During 2001, a major new business park, Helsinki High Tech Center, was completed, and the developer – SRV Viitaset is planning to adapt the concept in several business parks in different cities. The largest retail development in the Helsinki area was completed in May 2002, and is intended to deflect purchasing power flows to suburban hypermarkets and regional shopping centres. During the past months, sub-letting has become more general in the Ruoholahti area, and office rents are facing pressure to adjust downwards.

Other major office areas situated somewhat out of the city centre include Pasila, Sörnäinen, Vallila and Lauttasaari.

Towards the end of 1990s, they indicated even stronger growth than the city centre in terms of rental development. However, increased uncertainty hit these sub-markets during 2001, and rents started to fall. Just recently, discussion on major development projects in the Pasila area has started again, and the landowners

are expected to approach the authorities in order to create new plans for land use.

The Arabia shopping centre is a new medium-sized – 15,000 m² of retail premises – shopping centre located at the starting point of a major highway and next to a growing residential area.

Other areas in Helsinki

Pitäjänmäki, situated 7 km north of the city centre, is an old industrial area that was rapidly converted to one of the IT centres of the Helsinki Metropolitan Area in the late 1990s and early 2000s with some major headquarters-type new developments. The demand for space in the area started to decrease during 2001, and some major premises have been sub-let.

Another area with interesting potential is Herttoniemi, which is in slow transition from an old warehousing area to a diversified area with offices and "big box" retail units. It is located 5 km east of the CBD and is adjacent to both eastern radial route and the metro line. In recent years, there have been major development projects – for example, Opus business park by NCC – but the development activity is now slowing down with the economic situation. YIT Rakennus Plc started a major retail development project in Herttoniemi in early 2002, whereas office projects in the area have been postponed because of the lack of demand.

Further along that route, "Itäkeskus" (the Eastern Centre) can be found, located at the conjunction of Ring Road I and the eastern radial route. On completion of its new extension in autumn 2001, Itäkeskus Shopping Mall is one of the largest shopping centres in Europe with a leasable area of 94,000 m² and a catchment area of 750,000 people (30 minutes' distance).

"The office rents rose by 10% p.a. for several years in Helsinki CBD."

Espoo – the Silicon Valley

Espoo has an extensive conglomeration of IT and high-tech companies in the areas of Tapiola, Otaniemi and southern Leppävaara, which creates the second most important real estate market in the Helsinki Metropolitan Area. The popularity of this area can be explained by its proximity to Ring Road I and Helsinki University of Technology. A large proportion of the people working in this. "Silicon Valley of Finland" also reside in Espoo, giving the area a competitive edge for location decisions. There are several business park developments in addition to built-to-suit back-office or headquarters projects for major users. Lately, the City of Espoo has also been enticing major headquarters (e.g. Nokia, Kone, Fortum, Compaq) to relocate or stay by providing a waterfront location in Keilaniemi/Keilalahti, which is a picturesque bay by the sea facing Helsinki. In the immediate neighbourhood of these headquarters, construction work of Life Science Center's first two (of a total of five) buildings is scheduled to start in May 2002.

"Many major headquarters are located in Keilalahti / Keilaniemi area."

Iso Omena (Big Apple) is a major retail/office/residential centre outside this Silicon Valley area, 8 km from Helsinki CBD and near to the western radial route. The centre was

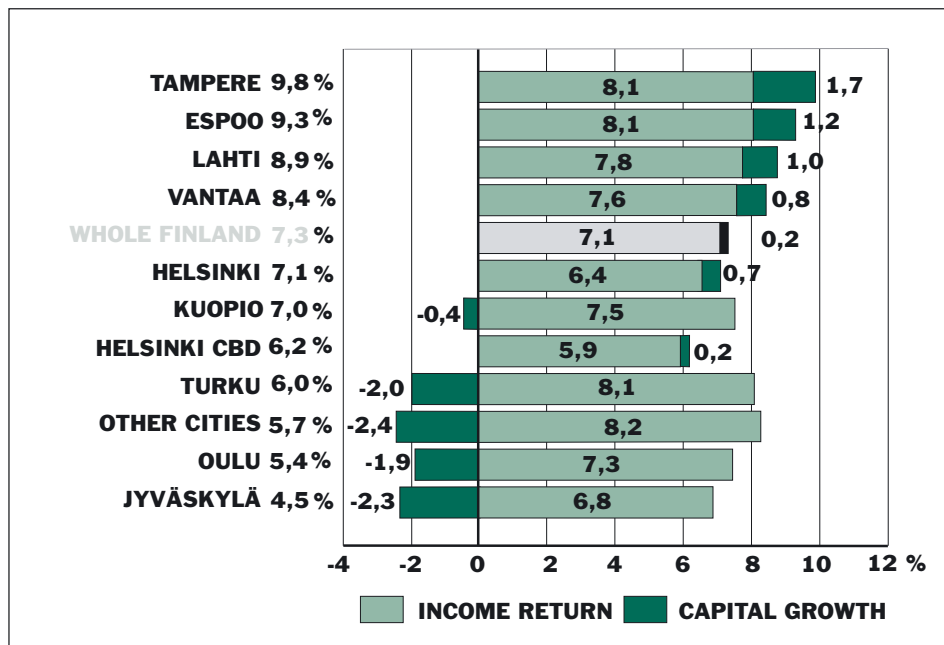
completed in late 2001, and the shopping centre has been well-received by the consumers. The other major project in Espoo is the redevelopment of Leppävaara Hypermarket into a combination of regional shopping centre and office buildings. Leppävaara has a favourable location, as it is at the conjunction of Ring Road I and the Turku motorway, and is also frequently served by trains. Because of the increasing uncertainty and decreasing demand for space, some projects in Leppävaara have been reduced or postponed.

Vantaa – the Airport City

The area around the Helsinki–Vantaa Airport has been developing rapidly in the past few years and can still be regarded to be in an interesting transition phase. It has traditionally been purely a logistics and industrial area, but there are several newly developed business parks and also major projects postponed in the hope of more positive economic conditions.

The new users in the area are mainly international companies with the need for rapid connections to the airport. There are also several large, recently finished retail projects in the area, such as Finland's first Retail Park and a major regional shopping centre called Jumbo. Many multinational companies have expressed interest in relocating to this rapidly growing area. The comparison of the total returns for different cities in 2000 reflects the expected results of rapid development activity in certain areas. The Helsinki market has further improved its performance, whereas in some other areas total returns have declined markedly. The results reflect the continuing rent rises in Helsinki as well as a slight rise in yields in other areas.

Total returns 2001 by region



(Source: KTI)

Tampere – a modernising, industrial city

Tampere's favourable location and diversified business activities create a strong basis for real estate demand. The majority of new development has been purpose-built buildings for large high-tech companies, situated south of the city centre, especially in the Hatanpää area. 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. The duality in the office stock 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. The rents have been rising for several years and vacancy rates have remained low. With decreasing demand, rents have started to stabilise, even decrease, and the vacancy rate has risen during the past few months. As an active and growing region Tampere has been able to attract investment capital. In April 2002, the biggest pension company, Varma-Sampo, acquired the majority of Tampere Kiinteistö Invest, a major property owner and developer in Tampere with significant holdings in the regenerated Finlayson Area, north of city centre.

Turku's real estate market faces new challenges

Of the major Finnish cities, Turku was the one that was hit most by the recession in the early 1990s. The property market only started to pick up at the end of 1990s, and the first rent increases were seen in the central retail area, which is located around the market square. The second area to recover was the Kupittaa area around the Turku Technology Centre, located near the university area and next to the railway station. This area, which is currently under heavy development activity, is mainly targeted at high-tech and biotechnology companies, and consists of office and high-quality manufacturing space. New developments, which were originally certain to almost double the office stock in the area, have been seriously pruned due to lack of demand. Vacancy rates are expected to rise

slightly in the area.

A major shopping centre Mylly was completed in Raisio, in the immediate neighbourhood of Turku in late 2001. Mylly's 100+ shops significantly affect the whole area's retail market within the catchment area of 260,000 inhabitants.

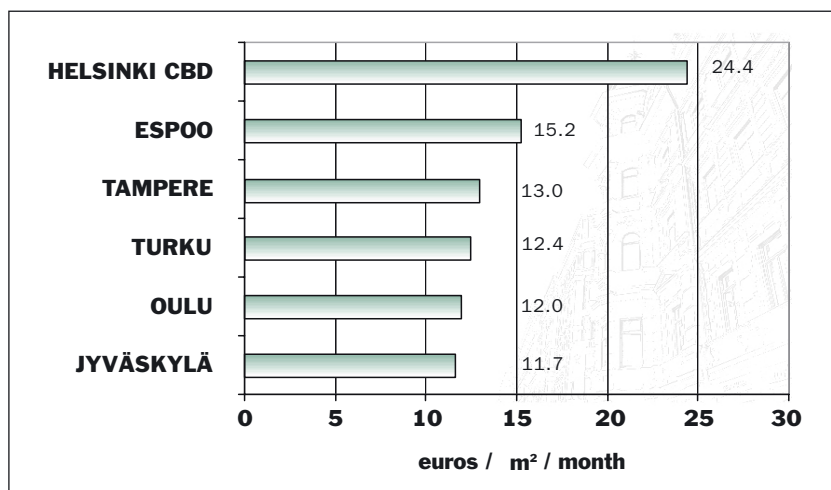
Oulu – the northern high-tech centre

Compared to many other Finnish cities, the Oulu real estate market was only moderately hit by the countrywide depression of the 1990s. This was partly due to Oulu's nature as the capital of northern Finland, and probably even more so because of its strong economic base in IT and other high-tech industries. The most important real estate market outside the central retail area is the Linnainmaa area, which accommodates several high-tech companies and the Oulu University. The net demand for office space in the Oulu area is heavily dependent on the success of the IT sector, and, because of the increased economic uncertainty the business sector faced in 2001, the demand for office and industrial space decreased towards the end of the year. One of the most significant occasions in the Oulu region in 2001 was the completion of the Pekuri block – a major retail centre in the centre of the city.

Jyväskylä market strengthened by public-private co-operation

The demand for space in Jyväskylä has lately been dominated by the increasing number of IT sector companies. This is partly a result of intensive co-operation between local authorities, the university and real estate developers. Intense new development activity have raised the rental level in the city, and on the other hand, also left older space unoccupied. Because of this development, there are significant differences in rental levels between new developments and older buildings. The centre of Jyväskylä is an important retail market, as it serves a rather wide catchment area. It has several shopping centres in a very small area.

Office gross rents in major Finnish cities.



Rents are gross rents: they include the net rent plus a service charge, which typically covers taxes, insurance, administration fees, maintenance and minor repairs. (Source: KTI Barometer)

4.6 A new growth phase expected on the Finnish property securities market

There are currently six listed real estate investment companies in Finland and three major unlisted companies. The growth of the Finnish property securities market has not met expectations – especially in late 1990s securitisation was expected to act as an accelerator in the structural changes needed in the market. However, the listed companies have lately been active players in the market both in terms of investment and restructuring their portfolios. The trading volume of the shares of listed property companies has been increasing steadily since the Sponda listing in 1998. The listed companies' shares have been trading at a significant discount compared to their Net Asset Value – the discount varying from 4% (Technopolis) to 44% (Citycon).

"Returns on the listed property company shares have been competitive."

The values of the property shares have not, however, been hit by the general uncertainty in the stock market compared to the HEX All Share Index. In 2001, the Catella Property Company Index rose by 19%, whereas the HEX Portfolio Index declined by 21%.

Finland has had a special legislation for real estate investment funds since 1997. However, no funds have been established because of certain pitfalls in the legislation. The discussion on the possible tax neutrality of real estate funds has become more active again during the past year and development projects are being carried out in order to revive the discussion. The development work is done in close co-operation with other European initiatives. This development

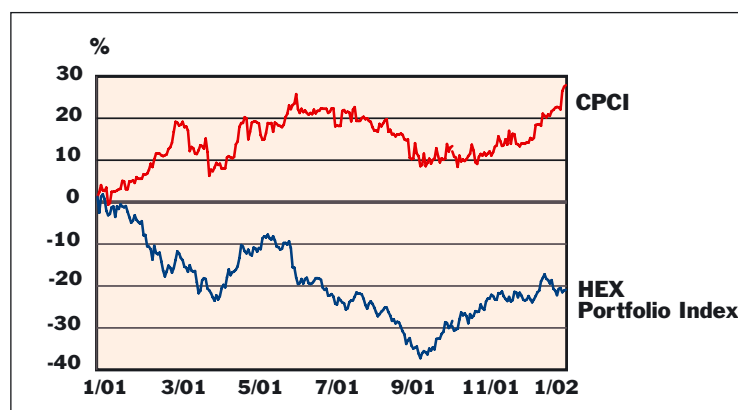
has been initiated by a broad spectrum of players in the Finnish market, i.e. institutional investors, potential funds and authorities responsible for the development of the residential market have all expressed the need to develop the property securities market.

Listed companies

Sponda Plc was founded in 1991 and listed in 1998. It is the largest real estate investment company listed on the Helsinki Exchanges. The market value of its property portfolio is EUR 1.1 billion. Sponda is focused on retail, office and logistics space in the Helsinki Metropolitan Area. In early 2002, Sponda sold the Itäkeskus Shopping Mall to a Dutch property investment company, Wereldhave N.V., for EUR 317 million. The total impact of the Itäkeskus sale was EUR 75 million, comprising a capital gain of EUR 67 million and a dividend of EUR 7.9 million. Itäkeskus Shopping Mall was the largest one of Sponda's properties with a net operating income of EUR 18.9 million. Of the Finnish listed companies, Sponda is the most international, as 22% of its shareholders are non-Finnish. The Finnish State currently owns about 47% of Sponda's shares.

Citycon Plc was founded in 1988 and it is currently Finland's largest property investment company specialising in retail premises. The company has a market capitalisation of approximately EUR 104 million. Citycon owns, lets and manages properties in Finland's largest growth centres. More than 60% of Citycon's properties are in the Helsinki Metropolitan Area and 25% in other growth centres in Finland (Turku, Tampere, Oulu, Jyväskylä, Lahti, Kuopio). In 1998 and 1999 Citycon acquired major retail property portfolios, which increased its portfolio significantly. By the end of 2001, the book value of Citycon's property stock was approximately EUR 655.3 million (excluding minority interests). The property stock includes 171 properties, of which 98% are shopping centres, supermarkets or shops.

Catella Property Company Index vs. HEX Portfolio Index



(Source: Catella Property Consultants)

Technopolis Plc, established in 1982, specialises in the provision of operating environments for high-tech companies. The Technopolis business concept comprises of providing both premises and a wide variety of facilities and business services together with development programmes targeted to the companies. Being a part of a network consisting of leading high-tech and knowledge-based companies operating in the centres also creates added value for the tenants. The book value of the property portfolio, consisting mainly of office properties with some production facilities, was EUR 122 million at the end of 2001. The properties are situated in high-tech growth centres, heavily concentrated in the Oulu region. Technopolis has recently expanded its portfolio and geographical presence by a significant new development project in the Helsinki–Vantaa airport area.

Polar Real Estate Corporation, founded in 1952, has been a listed company on the Helsinki Stock Exchange since 1989. It concentrates on owning, leasing and developing office and commercial premises with the main thrust of its operations centred on the Helsinki Metropolitan Area, Tampere and Turku. The balance-sheet value of its real estate portfolio totals some EUR 370 million. The leasable facilities of the investment properties amount to 260,000 m², which are utilised by 560 customers. The largest shareholders of the company are Nordea Bank, UPM-Kymmene, Wärtsilä and Partek.

Julius Tallberg-Kiinteistöt Oyj was founded in 1987 and listed in 1988. It is active in real estate investment and development operations, mainly in the Helsinki Metropolitan Area. The market value of the real estate portfolio is currently EUR 90 million, consisting mainly of office, retail and industrial space, and the company is still in a strong expansion phase for the following years. The strategic goal of the company is rapid and balanced long- term net asset growth.

Non listed companies

Kapiteeli Ltd, established in 1999, is a real estate investment company looking to gain a strong market position by focusing on owning, leasing and developing office and hotel property. In 2001, Kapiteeli Group turnover was EUR 296.1 million and the real estate assets were valued at EUR 1,278 million. Kapiteeli has a nationwide office network with customer service outlets in 14 localities. The company is owned by the Finnish State. Kapiteeli has a lot of development potential in its property portfolio. It also bases its competitiveness on the regional presence, multi-faceted expertise and its customer-oriented service model. Kapiteeli's long-term aim is to focus on the Helsinki Metropolitan Area and on the Tampere and Turku economic areas. It is also aiming at reducing the number of properties in its portfolio, and at the same time, increasing the average size of investments.

Dividum Oy specialises in the ownership and development of large and medium-sized hotel properties in city centres. Hotels normally have a medium or upper class rating. The property stock has a book value of EUR 304.6 million. It focuses on urban locations, co-operates almost exclusively with hotel chains and works in close co-operation with the operators. Dividum owns 5,614 rooms in 32 different hotels, whose restaurant capacity can house more than 18,000 guests. Dividum's largest owners are Nordea Bank Finland plc and Sampo plc.

Other useful contacts

RAKLI - The Finnish Association of Building Owners and Construction Clients is an interest group and trade association representing the most prominent real estate owners, investors and service providers in Finland. RAKLI provides a network for real estate professionals to discuss mutual challenges, exchange ideas, and share experiences and knowledge. RAKLI contributes to the implementation of best practices in Asset, Property, and Facilities Management, and promotes application of high standards in building- industry processes, real estate market information and benchmarking.

KTI Finland is 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 profitability of the Finnish property market. On the basis of this information KTI provides benchmarking services for property investors and publishes market information. KTI Index is an internationally comparable measure of property investment returns. KTI has established relationships with all major property investors in Finland and with many significant international research organisations and service companies.

5. Key terminology

Property	Kiinteistö
Rent	Vuokra
Rental agreement	Vuokrasopimus
Tax	Vero
Investment	Sijoitus
Return	Tuotto
Limited company	Osakeyhtiö
Housing company	Asunto-osakeyhtiö
Real estate company	Kiinteistöosakeyhtiö, kiinteistöyhtiö, Keskinäinen kiinteistöyhtiö
Office (space)	Toimisto(tila)
Retail	Liiketila, myymälä(tila)
Industrial	Teollisuus
Manufacturing	Tuotanto
Warehouse	Varasto
Hotel	Hotelli
Residential	Asunto
Building	Rakennus
Site	Tontti

6. Useful links

The Finnish Economy

Helsinki Stock Exchange
www.hex.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

Tekes / Rembrand Technology Programme
www.tekes.fi/ohjelmat/rembrand

Property Market Information

Catella Property Consultants
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

Finnish Property Companies

Dividum Oy
www.dividum.fi

Interavanti Oy
www.interavanti.fi

Julius Tallberg Kiinteistöt Oyj
www.jtkoyj.com

Kapiteeli Ltd
www.kapiteeli.fi

Citycon Plc
www.citycon.fi

Polar Real Estate Corporation
www.polarikiinteistot.fi

Oy Realinvest Ab
www.realinvest.fi

Sponda Plc
www.sponda.fi

Technopolis Plc
www.technopolis.fi



Institute for Real
Estate Economics
www.kti.fi

In co-operation with

CITYCON

www.citycon.fi

DIVIDUM

www.dividum.fi



JULIUS TALLBERG KIINTEISTÖT

www.jtkoyj.com



www.kapiteeli.fi

POLAR

REAL ESTATE

www.polarkiinteistot.fi

RAKLI

www.rakli.fi

Sponda

www.sponda.fi

TECHNOLIS

www.technopolis.fi

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