2011 KTI Market Review *Autumn*

- European debt crisis increases uncertainty in the Finnish property market
- Limited supply of prime properties limits the growth potential of transaction volumes
- Deteriorating outlook for the commercial rental markets
- Demand for rental residential remains strong

KTI - High quality property information

KTI Market Review – Autumn 2011

The continuing European debt crisis has dampened the positive expectations that prevailed in the Finnish property market in the spring. The deteriorating outlook for the economy has resulted in increased uncertainty in the property investment and rental markets.

Market turbulence causes investors to target their interest towards safe havens. Uncertainty has also increased even further the gap between low-risk properties that provide stable cash flow and riskier assets. As an end result, the undisputed position of the Helsinki central business district (CBD) in the Finnish market environment has grown even further. However, while the main attention is focused on prime properties, new opportunities may arise in non-prime assets for investors with equity and risk appetite.

In the property investment markets, 2011 might turn out to be the quietest year of the century, so far. Transaction volumes remain low, due to both the prevailing uncertainty and the limited supply of core assets for sale. However, the final volume depends on whether some deals currently in the pipeline can be realised or not.

In the rental markets, activity increased in the first half of the year, and take-up compensated for the amount of new commercial space coming to the market. However, the outlook is now turning more negative also in the rental markets. In all areas except the Helsinki CBD, and in all commercial property types, vacancies are expected to increase and market rents to decrease in the coming six months.

Residential properties' position remains relatively strong in the investment markets. Strong demand for rental dwellings has resulted in upward pressure on rental levels and has kept occupancy rates high in the residential portfolios.

Finnish institutional investor interest in property investments remains strong. In a recent survey carried out by KTI for INREV, property allocations are expected to grow from their current level of 11 per cent to ca. 12 per cent within the next three years. Together with the increasing total amount of capital, this might direct several billions of new equity into property. Finnish institutions plan to increase both their direct and indirect property exposures.

Economic uncertainty deteriorates the outlook for property markets

The debt crisis limits opportunities for economic growth

The Finnish economy grew briskly in the first half of 2011. Due to the continuing turbulence in the financial markets, and the lack of a sustainable solution for the Euro area's debt crisis, forecasts for the Finnish gross domestic product growth have decreased during the autumn. The prevailing uncertainty is illustrated by the significant differences in forecasts, with the expected GDP growth for 2012 varying from -1.5 per cent to 2.3 per cent. Provided a sustainable solution for the crisis is found, the growth is expected to accelerate in 2013.

Investments are postponed, limited growth potential for private consumption

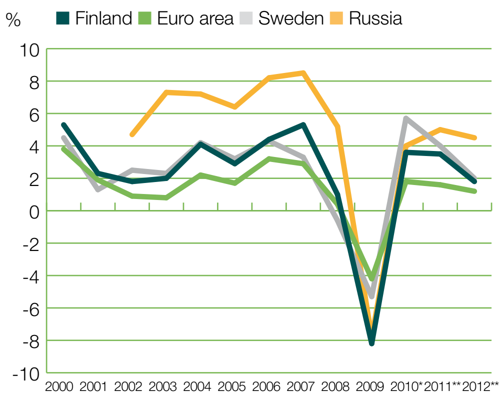
The economic uncertainty limits company willingness and ability to make investments. Consumers are also affected by the negative market sentiment. Increased uncertainty, tightening tax burdens and a deteriorating outlook for employment limit the potential for growth in private consumption. This can be seen in the consumer confidence figures, which are currently at their lowest levels since 2008.

- The weakening economy increases uncertainty in the property markets
- Investments are postponed
- Deteriorating employment weakens the outlook for space demand
- Consumer confidence decreasing

Threats for the Finnish exports

The increase in exports slowed down already in early 2011. Finnish exports are dominated by raw materials as well as production and investment goods, so they are very sensitive to fluctuations in the economy. However, Finnish competitiveness is supported by a weakening euro. Despite this, the increase in exports is expected to remain at 3–4 per cent in 2011 and 2012.

GDP, change in volume

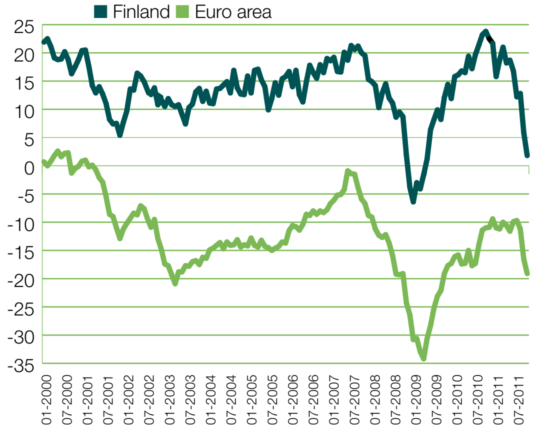


Source: Statistics Finland, OECD, Bank of Finland, Ministry of Finance

Low interest rates support the residential markets

The increased uncertainty and tightening conditions for bank refinancing increase the margins for debt financing. However, low interest rates support borrowers' ability to cover their loans. Despite this, housing market activity is expected to wane. Transaction volumes are expected to decrease and the increase in prices is likely to slow down, but no dramatic decreases are being expected. The production of new residential apartments is decreasing, as developers want to avoid increasing the stock of non-sold apartments.

Consumer confidence indicators



Source: European Commission

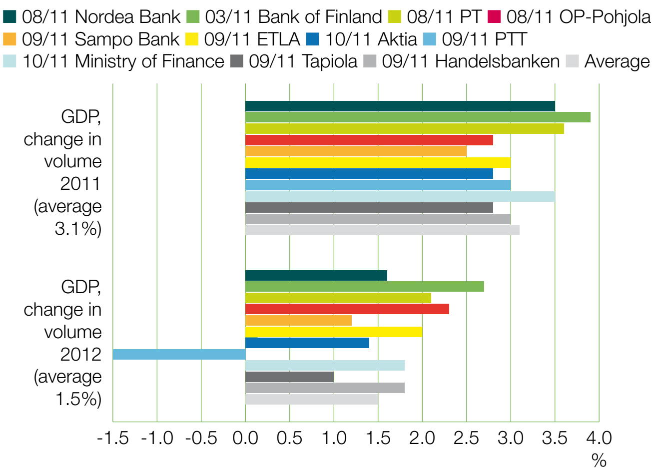
Key economic indicators

	2004	2005	2006	2007	2008	2009	2010	2011**	2012**
GDP (change in volume)	4.1	2.9	4.4	5.3	1.0	-8.2*	3.6*	3.5	1.8
Exports	8.2	7.0	12.2	8.2	6.3	-21.5*	8.6*	4.3	3.5
Inflation	0.2	0.9	1.6	2.5	4.1	0.0	1.2	3.5	3.3
Unemploymnet rate	8.8	8.4	7.7	6.9	6.4	8.2	8.4	7.9	7.6
Interest rates 3 months	2.1	2.2	3.1	4.3	4.6	1.2	0.8	1.4	1.9
Interest rates 10 years	4.1	3.4	3.8	4.3	4.3	3.7	3.0	3.1	3.4

** = forecast

Source: Statistics Finland, Bank of Finland, Ministry of Finance

GDP forecasts 2011 and 2012



Source: Talouselämä

Increasing uncertainty strengthens the relative position of prime properties

The lowest transaction volume in the 2000s?

In the spring, property professionals forecasted a rapid growth in the transaction volumes. However, these expectations seem premature. By the end of the third quarter of 2011, the total volume of transactions remained at €1.3 billion. While the second quarter gave promise for increased activity, the third quarter remained very quiet again, with a total volume of €0.3 billion. Since the beginning of 2000s, only 2009 has shown a total annual volume of less than €2.0 billion. However, as there are properties for sale, the final volume is now dependent on whether some of the ongoing transaction processes can eventually be finalised as planned.

Foreign investors account for less than a third of all transactions

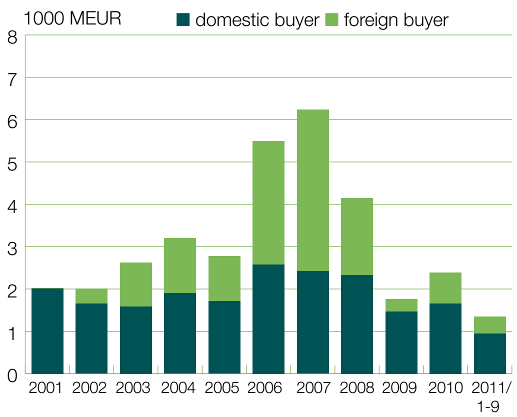
The share of foreign investors in all transactions amounted to less than 30 per cent by the end of the third quarter of 2011. Sveafastigheter's funds have been the most active single foreign player in the market. Some German funds have made new investments typically in newly built assets in the Helsinki metropolitan area. In September, a new player entered the market when PRUPIM's fund acquired a retail property in Vantaa.

Of the domestic investors, non-listed funds and listed companies have been the most active players. Their shares are increased by two single transactions: in April, Sponda acquired the Fennia block in the Helsinki CBD, and Exilion's fund invested in the so-called Sitra Tower in Ruoholahti. On the sellers' side, domestic institutions have been the most active player group, as some funds have adjusted their property allocations.

According to the RAKLI-KTI property barometer, the expectations for the investment demand have turned clearly more negative. In the spring, a significant increase was expected in the transactions volume, but now the balance figure for the investment activity's outlook development is close to zero. Investment demand is expected to quiet down from both the domestic and foreign investor side.

- Transactions volume remains low
- Yields turn upward again
- Office take-up increased in the first half of 2011
- The relative position of the Helsinki CBD remains strong
- Vacancies increasing also in the retail markets

Volume of transactions

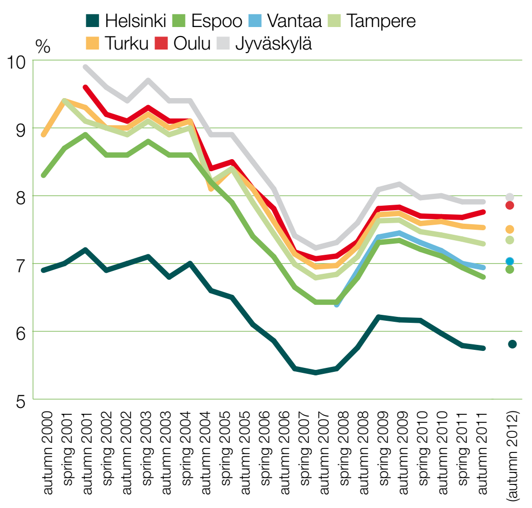


Source: KTI

Investor interest is focused on prime properties

The turbulence in the financial markets has caused investors to focus on low-risk core properties. In the current market environment, this means a clear emphasis on stable rental cash flow. As the current owners of these properties also value the cash-flow very highly, there are not many willing sellers in the market. The lack of supply of high-end assets effectively limits the growth potential of the investment volumes. In the Finnish market environment, the supply of “core” properties is concentrated in Helsinki CBD retail and office properties, as well as modern offices within good traffic connections in the Helsinki metropolitan area.

Prime property yields in city centers



Source: RAKLI-KTI Property barometer

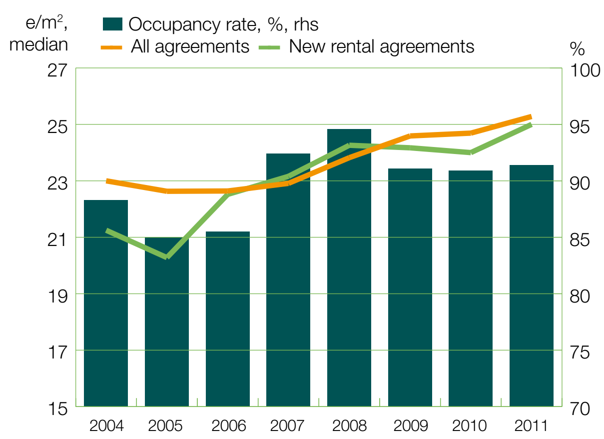
Prime yields stabilise

According to the RAKLI-KTI property barometer, the prime yield for offices in the Helsinki CBD currently stands at 5.75 per cent. The yields have decreased slightly in all major cities since spring 2011. The decrease is now expected to be over, and slight increases in yields are expected for all property types within the next year.

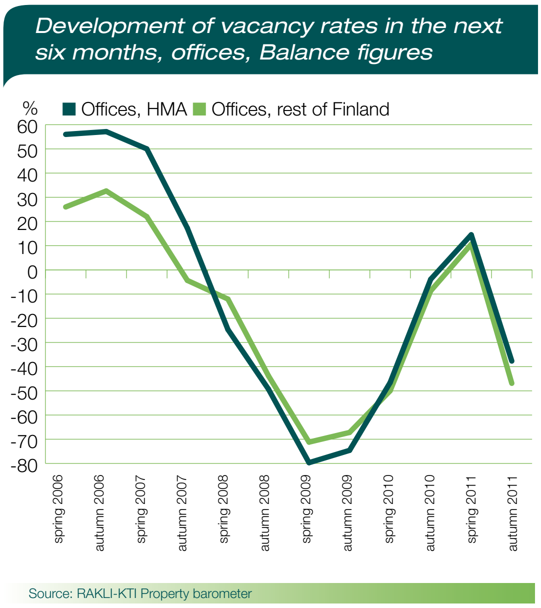
First half of 2011 showed positive development in rental markets

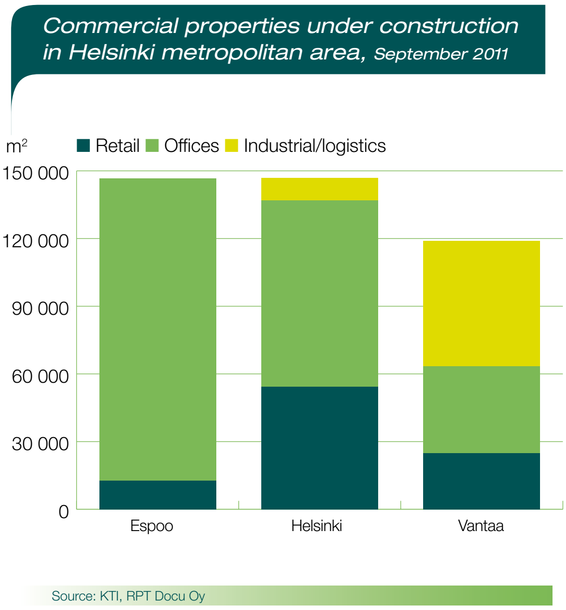
The activity in the rental markets increased and vacancies decreased in the first half of 2011. The gross take-up of offices in the Helsinki metropolitan area amounted to ca 215,000 sqm, which represents a 15 per cent increase compared to the previous six months. However, in the current economic environment, decision-making in rental transaction processes is being prolonged again, and the outlook is more negative than the past six months. The Helsinki CBD seems to retain its attractiveness also in the difficult times. Rents for prime premises have continued increasing, even in a slightly accelerating pace. The annual increase in the KTI rental index for Helsinki CBD offices amounted to 4.1 per cent.

Office rents and occupancy rates in Helsinki CBD



Source: KTI





Office vacancy rate remains an issue in Helsinki metropolitan area

There are currently some 190,000 sqm of new and 50,000 of redeveloped office space under construction in the Helsinki metropolitan area. New space, together with the decreasing demand, will probably result in increasing vacancy rates. According to the RAKLI-KTI property barometer, a clear majority of property professionals expect the vacancy rate for offices to increase within the next year both in the Helsinki metropolitan area and in other major cities.

Retail markets continue stronger development

Rents for the best retail premises have increased significantly during the past few years. The development has continued to be clearly more positive than in the office markets. However, the outlook has now turned more negative also in the retail markets. In the RAKLI-KTI property barometer, the expectations for the rental development in the Helsinki CBD were slightly positive, whereas in all other areas, the balance figures for retail rental development have turned negative. Also, the vacancy rates are expected to increase in the near future.

Construction activity still stable

The economic uncertainty has not yet affected construction volumes. In the Helsinki metropolitan area, new high-quality office space is under construction or redevelopment for more demanding occupiers. There are also some major logistics projects under construction. New retail properties are currently under development in the cities of Hämeenlinna, Hyvinkää and Kuopio, for example.

Demand for rental residential increasing in all major cities

Rental residential markets remain strong

Residential investment seems to retain its attractiveness also in turbulent times. Demand for rental residential is strong in all major cities other than the Oulu region. The attractiveness of rental housing might even be strengthened again, as happened in the financial crisis in 2008. As the supply is not increasing significantly, rental dwellings are expected to remain fully occupied also in the near future.

- Residential rents continue increasing
- Rental growth is rapid in Espoo, Helsinki and Tampere, in particular
- Developers adjust new construction to changing market conditions

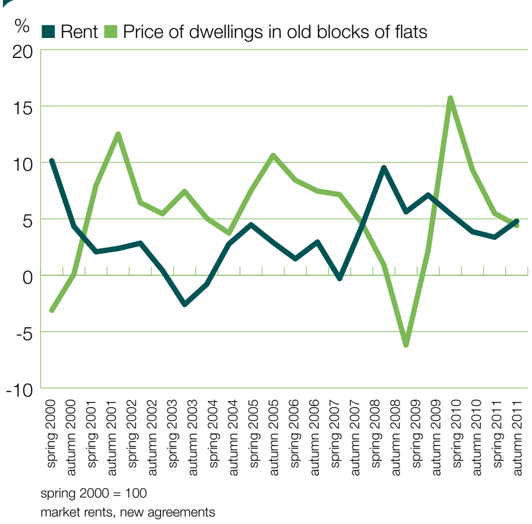
Residential rents continue increasing in Helsinki metropolitan area

The KTI residential rental indices show strong increase in all major cities. In the Helsinki metropolitan area, the increase amounted to ca. 5 per cent between the autumns of 2010 and 2011. The growth has accelerated from the past few years. The strongest growth was seen in Espoo, with more than 6 per cent, whereas in Vantaa the increase was less than 3 per cent. In the small apartments in the Helsinki CBD, the rents currently amount to some €25 / sqm. Results from the RAKLI residential barometer survey, carried out in August, show that rents are expected to increase also in the future.

Rents increase in all major cities

Rental growth accelerated also in Tampere and showed an annual increase of almost 6 per cent in new rental agreements. In Turku and Jyväskylä, the increase amounted to some 4 per cent. Oulu and Lahti differ from other major cities, with rental indices showing a growth of less than 2 per cent. However, according to the RAKLI rental residential barometer survey, the future expectations are clearly more positive for Lahti than for Oulu.

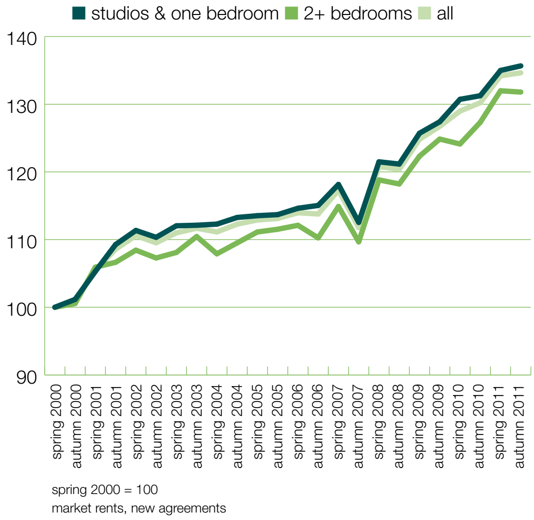
KTI Residential rent indices and prices of dwellings in old blocks of flats
annual change, %, Helsinki Metropolitan Area



Source: KTI, Statistics Finland

KTI Residential rent indices

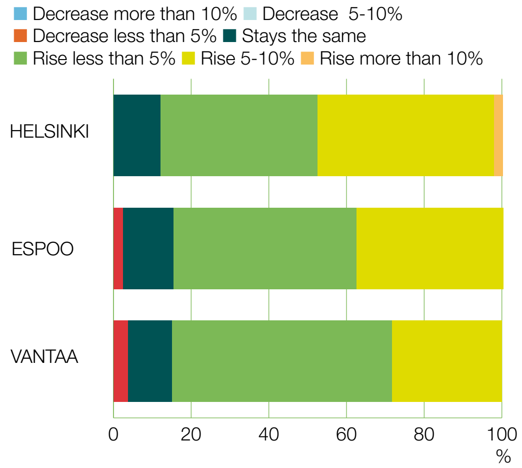
Tampere, Turku, Oulu, Jyväskylä, Lahti



spring 2000 = 100
market rents, new agreements

Source: KTI

Expected development of rents of small apartments in Helsinki metropolitan area



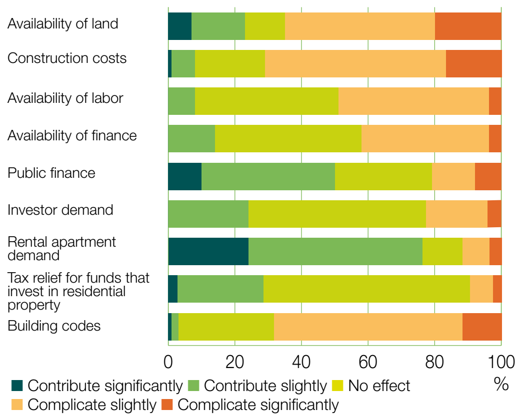
Source: RAKLI Residential barometer, autumn 2011

New construction of rental residential on a downward trend?

After the financial crisis in 2008, the Finnish government introduced an interest subsidy system for rental residential development to both support employment in the construction sector and accelerate production of moderately priced rental housing. The system proved effective, and new rental dwellings were - and still are being - developed in the Helsinki and Tampere regions, in particular. In the current situation, the government cannot afford similar subsidies. Due to high construction costs and limited availability of lots, the opportunities for rental residential development are limited. With regards to owner-occupied housing, developers seem to react rapidly to the changing market conditions. In 2010, the development of some 34,000 new dwellings was started, but in 2011, the number will decrease to some 31,000. For 2012, an even lower number is forecasted.

Drivers affecting rental residential construction

How will the following drivers impact the construction of rental residential dwellings within the next year?



Source: RAKLI Residential barometer, autumn 2011

Rents for commercial properties remained stable in major cities in early 2011

Office rents continued increasing in Helsinki CBD

The position of the Helsinki CBD remains strong. In the new rental agreements, average monthly rents exceeded 25 euros / sqm, with prime rents amounting to more than 30 euros. Rental activity has also increased. The amount of vacant space remains low in the CBD.

In the RAKLI-KTI property barometer, property professionals assess the rents for prime retail premises at a slightly lower level than in the spring. However, new agreements have been made mostly for stable prices, with upper quartile of some 100 euros / sqm, and prime rents exceeding this by more than 50 per cent. Supply of prime premises is still limited. New and refurbished space has been completed by the extension and redevelopment of Kluuvi and Kämp Galleria shopping centres.

- Office rents increased in most submarkets in the Helsinki metropolitan area
- Leppävaara shows the highest activity in Espoo
- Expectations in the rental markets turn negative
- Office yields expected to increase in all major cities

The Helsinki CBD's position is clearly distinguished from all other submarkets. In the RAKLI-KTI property barometer, it is the only area where the outlook for rental development is still positive both for retail and office demand. However, even there the expectations are now significantly less positive than six months ago.

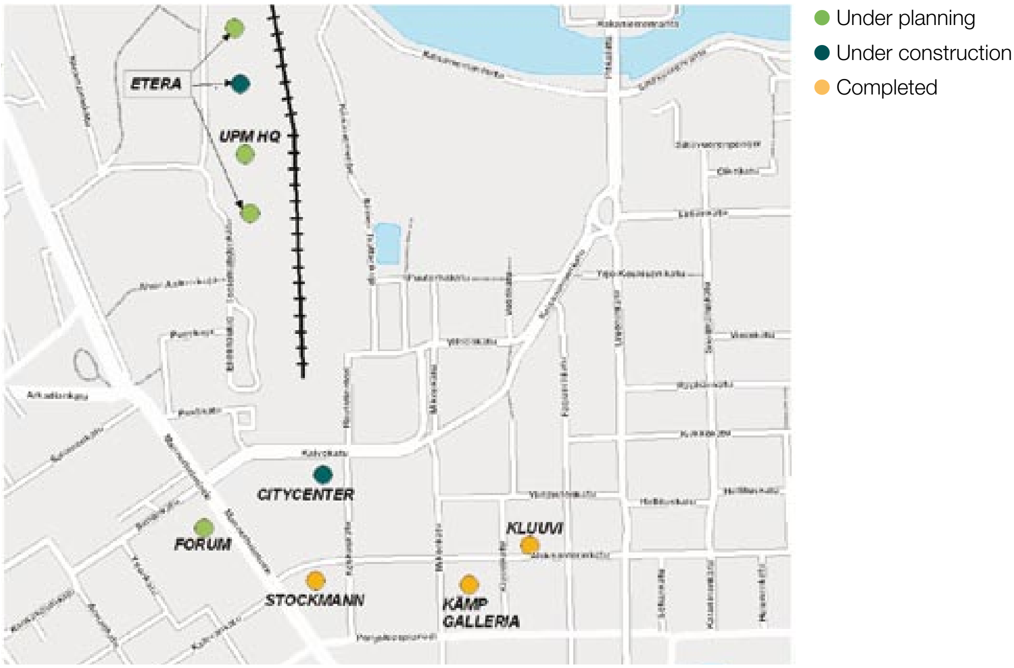
Rental activity increased in many submarkets

The increased uncertainty cannot yet be seen in the realised transactions in the rental markets. New agreements have been started for rising rental levels in Sörnäinen, Pasila, Vallila and Pitäjänmäki areas of Helsinki, for example. However, occupancy rates remain low in these areas, especially in Pitäjänmäki, where it is below 75 per cent, according to the KTI rental database.

The amount of vacant space has increased in the Ruoholahti area during the past year. Rents have, however, remained quite stable.

In all of Helsinki, rental market activity has exceeded the levels of the previous years both in retail and office markets. The occupancy rates have remained stable, amounting to 88 per cent for offices and 97.5 per cent for retail premises in September, according to the KTI rental database.

Commercial projects in Helsinki CBD



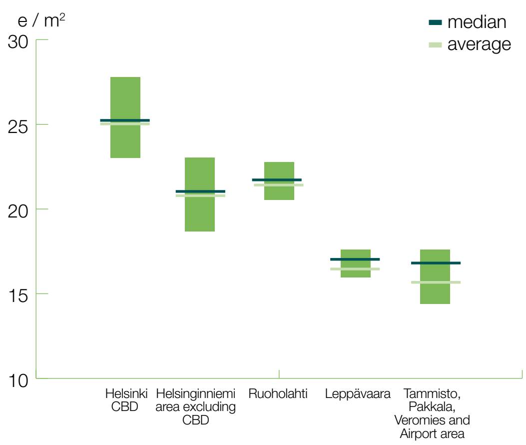
Source: KTI

Office market activity increased also in some Espoo submarkets

Occupancy rates for offices remain low in Espoo. The amount of vacant space has continued increasing, and the occupancy rate remains below 80 per cent in the KTI rental database. The supply is going to increase further through new development, with more than 100,000 sqm of new office space being currently under construction. This will, according to the RAKLI KTI property barometer, increase pressures on the rental levels, which are expected to decrease. The amount of vacant space is highest in Keilaniemi-Otaniemi as well as the Kilo-Mankkaa areas.

Despite the vacancy issues, prime properties have continued to attract tenants in the Leppävaara area, for example. This area has also been the most active submarket in Espoo in terms of new development and transactions recently.

Office rents in HMA, new agreements



Source: KTI

In Vantaa, the supply is increasing in the Aviapolis area

The attractiveness of the Aviapolis area remains strong in Vantaa, and new office and logistics space is being developed. New retail space has been completed in the Tammisto area earlier this year. Rental development has also been positive in the prime office spaces. However, overall, the outlook is more negative also in Vantaa. The strong position of the Aviapolis area is also illustrated in RAKLI-KTI property barometer, where a positive outlook for logistics properties in the area was forecasted both in terms of rents and yields.

Vacancies increased in Tampere offices and retail

In the city centre, office rents in new agreements have increased slightly. However, at the same time, the amount of vacant space has increased. In the retail markets, the divergence of rents is significant, and the amount of vacant space is also increasing both in the city centre and the Lielahti area.

In Turku, occupancies have increased in retail and office markets

Rental levels for prime retail space have increased in the Turku centre, and the amount of vacant space has decreased slightly. In the office markets, occupancy rate has improved, and rents have shown strong development in the Kupittaa area in particular. The majority of respondents for the RAKLI-KTI property barometer expect office rents to remain stable in the near future.

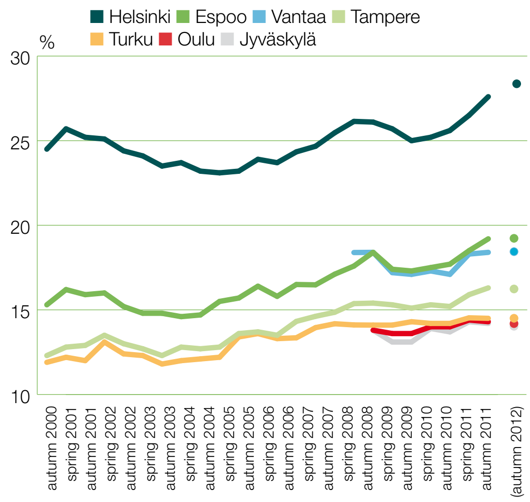
Rental markets have been slow in Oulu and Jyväskylä

Rental activity has remained low in the Oulu and Jyväskylä markets. In both cities, new office agreements have been started in the prime premises, which increase the rental indicators. Rents are expected to remain stable also in the near future. However, due to the increased economic uncertainty, yields are expected to increase to ca. 8 per cent in both cities within the next year.

Kuopio and Lahti show increased activity

In both Kuopio and Lahti city centres, both rental levels and market activity have increased in the office markets during the past six months. In Lahti, also retail markets have shown positive development, as new agreements have started in prime locations. The supply of retail space will increase in Kuopio as ongoing development projects are completed, which will probably result in increasing vacancies.

Market Rents, *Offices in Major Finnish Cities + forecasts in 12 months*



Source: RAKLI-KTI Barometer Survey

Property has a strong position in the Finnish institutional investment portfolios

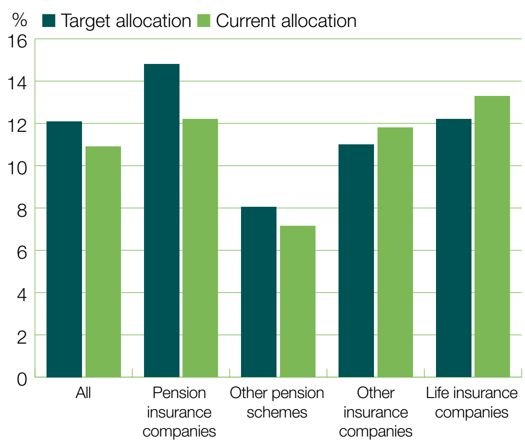
KTI carried out a study for INREV in the summer 2011 on the structure and outlook for the Finnish institutional investment market. The focus of the study was the role of property and different property investment vehicles in institutional investor portfolios. INREV has carried out similar studies on the investor universe in the United Kingdom, the Netherlands, Sweden, France and Germany.

The total size of the Finnish institutional investment market amounts to €180 billion. Of this, some 11 per cent (€20 billion) is invested in property. The allocation to property is thus higher in Finland than in most other markets studied by INREV. The Finnish institutional market is dominated by pension insurance companies, whose share of the total institutional property exposure exceeds 50 per cent.

- Domestic direct investments dominate institutional portfolios
- Property allocations expected to increase in the future

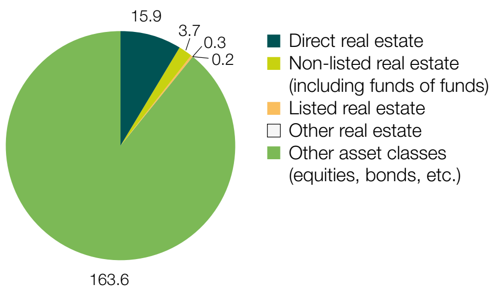
Institutional investment portfolios are dominated by direct domestic property holdings. However, strategies differ significantly between the players. In total, direct investments account for more than 80 per cent of all property investments, and domestic investments for 88 per cent. No direct investments have been made outside of Finland. International exposure is acquired mainly through non-listed property vehicles.

Property allocations by player type



Source: INREV Investor Universe Finland Survey

Investment allocations of Finnish institutional investors, bn €



Source: INREV Investor Universe Finland Survey

According to the study, the attractiveness of non-listed vehicles is based on the access to new markets, together with international diversification, as well as access to debt capital. However, their attractiveness is reduced by the lack of control, as well as high fees and expenses typically related to funds.

The position of property in institutional portfolios is expected to remain strong also in the future. The amount of property investments is expected to increase by more the €4 billion within the next three years. The expected growth rate is higher for indirect than direct investments, with the total volume of indirect investments increasing by ca. one billion from its current level of ca. €3.7 billion.

If realised, this would result in a higher absolute exposure in indirect property than in Sweden, as reported in a similar study carried out in this country – despite the significantly larger size of the institutional market in Sweden. The increase in Finland is due to both the increase in the total amount of capital in institutional portfolios and the increase in target allocations. The average target allocation is expected to increase by one percentage, in other words, to 12 per cent.

KTI'S RESEARCH AND DEVELOPMENT AGENDA

Sustainable property business – tools for steering and measurement

KTI is initiating a research and development project that will devise new tools for measuring the energy efficiency and sustainability of properties. In the project, we will collect data on sustainability and analyse the connections between sustainability and other performance indicators. We will also ponder ways to use these measures for steering purposes. For more information, please contact Jessica Niemi, tel: +358 400 910 296.

Key indicators for shopping centre management

The Finnish Council for Shopping Centers and KTI have initiated a project that will measure the key performance indicators for shopping centre management and investment. The aim is to agree on the contents of the key property measures related to returns, rents and costs, as well as the general business measures, such as visitors, sales and tenant characteristics of the shopping centres. For more information, please contact Hanna Kaleva, tel: +358 40 5555 269.

IPD and KTI study property valuation methodologies and practices in the Nordic countries

IPD and KTI will explore the methodologies, practices and parameters applied in property valuation in the Nordic countries. In this project, we will analyse the property index databases of IPD and KTI, along with interview the key players in the valuation business. The project aims to increase the transparency of property valuations, as well as compare the similarities and differences between the Nordic markets. For more information, please contact Hanna Kaleva, +358 40 5555 269.

KTI Online improves the usability of property market information

KTI Online service is a portal for distributing property market information that seeks to improve the value and usability of KTI's information services. The first phase of the service, which we will launch in late 2011, will enable users to flexibly search market information. We will continue the service based on user feedback. For more information, please contact Matti Heiskanen, tel +358 40 832 6698.

Key indicators for corporate real estate management – measuring space efficiency, occupancy costs and user satisfaction

In the spring 2012, KTI will start the third update of its service targeted at office occupiers. In the service, we will measure and benchmark space efficiency, occupancy costs and user satisfaction in office properties. For more information, please contact Jessica Niemi, tel. +358 400 910 296.

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

KTI - High quality property information

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