

The Finnish property market produced a total return of 5.1% in 2008

The total return on the Finnish property investment market in 2008 was 5.1%. Of the two components of total return income return remained high at 6.4%. Capital growth, which measures the change in capital values, decreased to -1.2% in 2008. Capital values were pushed down particularly by the increase in yields due to the tightening financial markets. The continued rise of rental values softened the pressure on capital values.

Property outperformed the equities market but not the bond market, which produced returns of -47% and 9% respectively.

Retail sector produced the lowest total returns

Retail was the best performing property sector during 2003-2007. Strong consumer demand and rising rent levels added to the attractiveness of retail investments. New supply of retail properties increased market rental and capital values particularly in recent years. In 2008, however, total return on retail sector decreased to 3.0%, making it the lowest performing property type. Capital growth decreased to -3.3% due to increasing yields. Capital values decreased equally in shopping centres and other retail properties. At 6.4% income return is slightly lower than in 2007. Occupation rates remained strong at 95% and investors remain confident of the outlook of the rental market.

Office income return remained stable

Total return for offices decreased to 4.6%, 5 percentage points lower than in 2007, but outperforming the retail sector for the first time since 2000. The capital growth of offices also turned negative (-1.6%) due to rising yields. Income return remained stable at 6.3% due to rising rents and occupation rates. The office sector's outlook for the next few years is darkened by the large number of new office developments currently underway, particularly in the Helsinki Metropolitan Area. Simultaneously the world-wide recession is slowing down demand for office space, placing downwards pressure on occupation rates and rents – although these trends are not yet apparent in the 2008 returns.

Residential the highest performing sector in 2008

The positive outlook for the residential rental market is reflected in the total return of the residential sector, which reached 8.0% in 2008. The residential sector was the only sector with positive capital growth as capital values increased by 2.2%. Rental values kept increasing in 2008. As yields also increased, this slowed down capital growth. Rising rent levels compensated for the slight decrease in occupation rates leading to a stable income return of 5.7%.

Occupation rates rising in the industrial sector

The total return for the industrial sector was 6.1% in 2008. The capital growth of both warehouses and other industrial properties turned slightly negative. At 7.6%, income return also remained below last year's levels despite an increasing occupation rate.



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KTI Property Index measures ungeared total return on direct property investments in Finland, consisting of income return and capital growth. Contributors to KTI Index include 23 major Finnish property investors, and the database currently comprises some 18.8 billion euros worth of properties, thus covering over 52% of the total property investment market. KTI Index is compatible with property indices published by IPD for other countries. KTI is an independent property information and research service company.

Attached:

- **Total return on the Finnish property market 1998-2008**
- **Total returns by sector in 2008**
- **Total returns by area in 2008**



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