Autumn 2023

KTI Market Review

- Property transaction and construction volumes at a historically low level
- Adjustment of property market to the rise in interest rates still in progress
- Oversupply of rental apartments expected to melt away as construction slows down
- Outlook for the office and retail rental markets is negative

30 VUOTTA KIINTEISTÖTIETOA

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Content

The year 2023 will remain in history as one of the quietest years of the 21st century in the Finnish property market. Transaction and construction volumes have collapsed, and in the rental market, supply exceeds demand in many submarkets.

The sentiment and prospects of the property market are weighed down, above all, by the rapid rise in interest rates during the past year, which is now hitting the property investment market in many ways. The increase in interest rates slows down economic growth, reduces the relative attractiveness of real estate in the investment market, increases property yields and reduces annual cash flow produced by property investments. The availability of debt financing for real estate investments has tightened significantly, which in part reduces the prerequisites for investments.

The adjustment of the property market to the new operating environment is still in progress in many respects. Because of this, current market parameters do not work in investors' investment calculations, which effectively reduces the prerequisites for transactions and construction investments. If the interest rates will settle down as expected, it is likely to contribute to the stabilization of the property market outlook, which, in turn, would improve the sentiment and increase market activity in 2024.

Various property sectors face the new operating environment in a different situation. In the rental residential market, the supply exceeds the demand, especially in the Helsinki metropolitan area, but the excess supply is expected to melt with the decrease of new construction. The uncertainty of office demand is increasing, due to both the deterioration of the overall economic situation and the increase in hybrid working, which further highlights the polarization of the sector and makes investors even more selective. The demand outlook for retail properties also remains negative. The position of industrial properties remains more positive than other commercial property sectors. The market for public use properties has also quieted down markedly this year, after the very high transaction activity in 2022.

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2024 – life in the world with interest rates

The world economy did not follow the script in 2023, and it will not do so in 2024 either. There are always too many moving variables involved. The ”soft landing” that everyone hopes for, where economic growth slows down momentarily and then returns to a brisk upward development, is far from certain. The world's economy has kept up, led by the USA, but will its pull still last next year?

Compared to the economic environment of the last couple of years, the big change is that we currently have interest rates. After interest rates dropped to zero in the aftermath of the global financial crisis, it was initially expected that positive rates would soon return. But they didn't. The central banks' liquidity stimulus kept interest rates low for more than a decade, i.e. much longer than expected. Finally, during the pandemic, it was widely expected in the economy and in the financial markets that interest rates would never rise again - and everyone began to act accordingly.

In 2022, the world changed as the push of zero interest rates and excess liquidity finally overheated the economy. The challenges caused by the tightening supply chains worsened the situation, and suddenly a phenomenon that was thought to be dead – inflation – returned. And it came back hard. Following inflation, interest rates rose rapidly, and now we are, once again, in an environment where money has a price, which affects both the economy and the financial markets everywhere.

In 2024, we will have to adapt to living with interest rates. It is already clear that it will not happen without problems, but the magnitude of adjustments is still unknown. In Finland, the housing and other real estate markets are most obviously facing challenges. In the past years, there was a ”free lunch” offered for investors, as residential dwellings could be bought with an interest rate of one per cent and rented out with a return of four per cent. On top of that, the values of properties kept increasing. Now, with an interest rate of five per cent, the equation does not work any more. Some - or all – of the variables have to adapt: property prices, interest rates and/or rents. If things go well, the mispricing will gradually be corrected. There will be losses, but they will be widely distributed, and no major damage will occur. A similar challenging situation exists in other markets, such as corporate loans, where interest costs are expected to rise when current debts mature, as refinancing will be more expensive.

In the current situation, the big risk is that something big will break. In the past, interest rate hikes by central banks have often driven someone ”too big” into ”too big” difficulties, and the impacts were reflected in the entire economy. We have already almost forgotten that in spring 2023, regional banks in the USA went bust as a result of the rise in interest rates. However, the authorities rescued the banks with determination, and the damage to the economy was minimal. Their problems made it apparent that the increase in interest rates will not be painless this time either. During the financial crisis in the spring of 2008, the Bear Stearns bank ran into problems, but was saved. After that, the market rejoiced that all the problems have now been solved. However, half a year later came Lehman Brothers, and that's when the real difficulties started.

Next year we will have to continue to adapt to the new interest rate environment. There are challenges ahead, but the intensity of the shocks is still a big question mark. The good thing is that they don't come as a complete surprise, but we are already – at least partially – prepared for the higher interest rates. Another good thing is that the economy is self-correcting. If prices fall, supply falls, and, gradually demand will pick up. If economic growth freezes, interest rates will turn down. However, it takes time. The effects of the increase in interest rates are slow, so a decrease in interest rates will not bring a quick economic turnaround either. The waiting time is long in both directions, but eventually, the economy will turn again.

Transaction volume at a record low level

- » Transaction and construction volumes at the level of the years after the financial crisis
- » Increase in yields is eroding property values
- » A pick-up is expected for 2024 with the stabilization of interest rates
- » New sources and players needed for real estate financing

According to the KTI transaction follow-up, the total transaction volume for the first three quarters of 2023 remained at 1.8 billion euros, which is less than a third of the six billion euros of the corresponding period in 2022. In July-September 2023, property transactions worth only about 370 million euros were carried out. These are the lowest volumes since the aftermaths of the global financial crisis in the years 2009-2013, and, even then, the quarterly volume fell below 400 million euros in only a few quarters. The total size of the property investment market has more than doubled compared to those years, so in relative terms, transaction activity of 2023 is even lower than in the years after the financial crisis. The rolling 12-month transaction volume fell to approximately three billion euros in Q4/2022-Q3/2023. Again, this low volumes were last seen more than a decade ago.

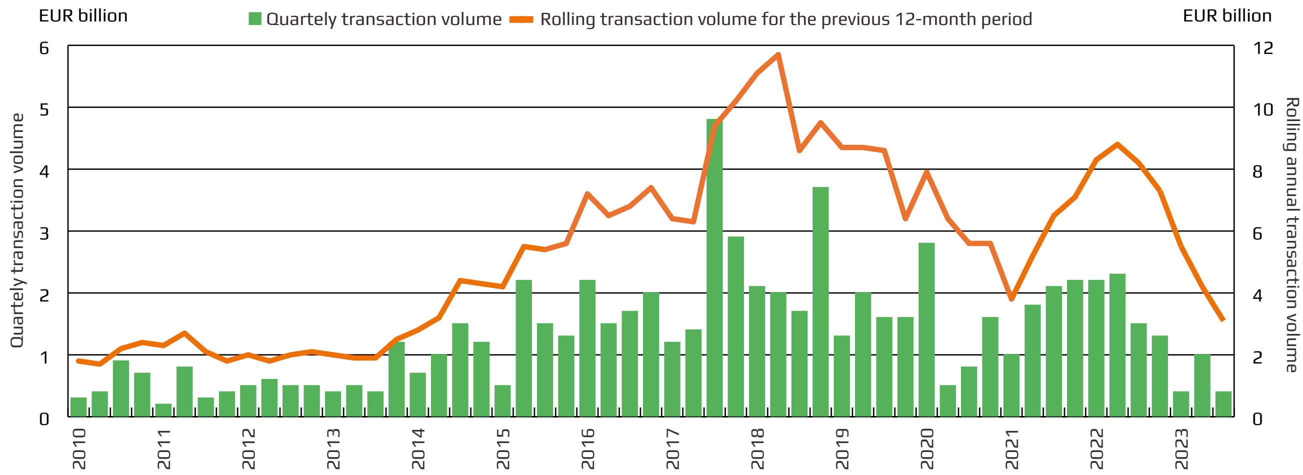
Residential again the most traded sector

Rental residential properties represented slightly more than a third of the total transaction volume in the first three quarters of 2023. However, unless transaction volume in the last quarter picks up considerably, the annual volume will remain far from the level of activity of the past decade. The office transaction volume of approximately 400 million euros mainly consists of a few large single asset transactions. In January-September, the transaction volumes of retail, public use and industrial properties remained at 200-300 million euros, again a fraction of the levels of the last decade.

The increase in interest rates increases uncertainty and weighs on property returns

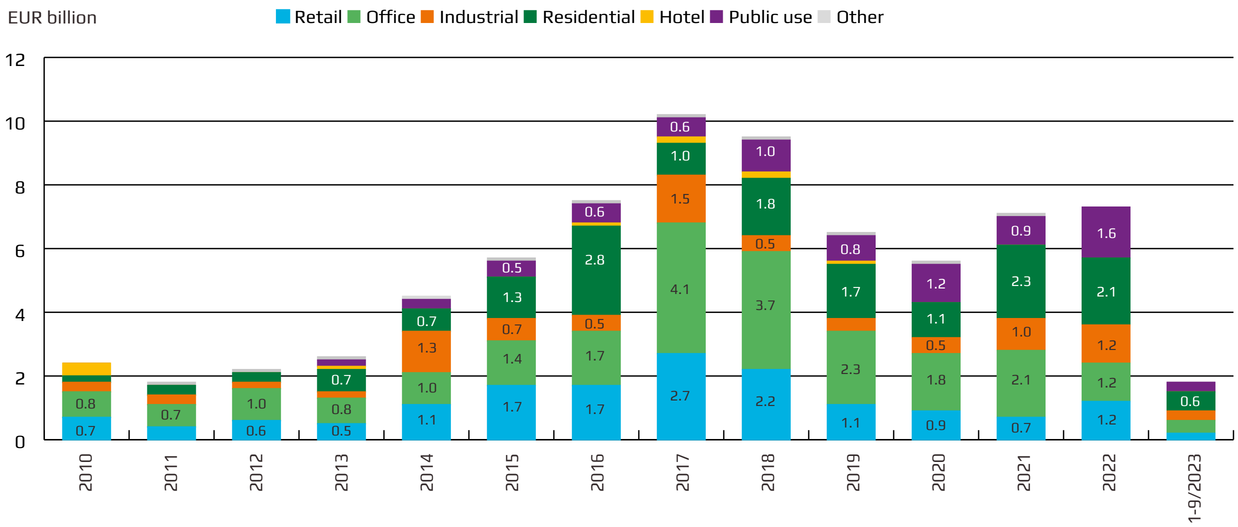
The main driver for the freezing of the property transaction market is the rise in interest rates. During

TRANSACTION VOLUME IN THE FINNISH PROPERTY MARKET SOURCE: KTI



TRANSACTION VOLUME BY PROPERTY SECTOR

SOURCE: KTI



the past decade, the zero-interest rate environment pushed capital into the real estate market. The period of low interest rates increased the amount of capital invested in real estate for two reasons: stable property returns offered an attractive alternative to bond investments, and the abundance and affordability of debt capital further increased the attractiveness of real estate. Now the situation has quickly reversed: the rise in interest rates directs capital to other asset classes, the availability of debt capital has tightened rapidly, and the increase in the cost of capital raises property yields. In addition, the increased interest expenses weigh on the net income of property investments.

The increase in yields continues

The impact of rising interest rates on property yields has been one of the most discussed themes in the real estate market during the past year. Differing views of potential sellers and buyers regarding the adjustment of property values and prices have effectively prevented transactions from being materialised. In the Rakli-KTI Commercial property barometer carried out in October, the yield for a Helsinki CBD office property increased to 4.7 per cent, which is a good 1.3 percentage points higher than the lowest quote in spring 2022. The yield for a well-located residential property in Helsinki was now just under 4.4 per cent, i.e. 1.2 percentage points higher than a year and a half ago. The yield for a retail property in Helsinki CBD now increased to 5.3 per cent. In general, the impact of the increase in yields has been greatest in those submarkets where the lowest quotes were recorded before the change in the operating environment. However, real market evidence for yield levels is very scarce, due to the low transaction activity.

Market activity expected to pick up in 2024

Expectations of the end of interest rate hikes and of the stabilization of the financial market conditions strengthen the belief in the recovery of the property investment market in 2024. Also the downward adjustment of property values is expected to facilitate transactions. In the Rakli-KTI Commercial property barometer, more than 80 per cent of the respondents expect the overall situation of the property investment market to improve over the next year, and in all commercial property sectors, transaction volumes are expected to grow. Almost 70 per cent of the respondents anticipate that foreign investor demand will increase in the next 12 months. On the other hand, slightly fewer, just under half of the respondents, believe in the growth of domestic investor demand.

The situation of special investment funds has changed rapidly

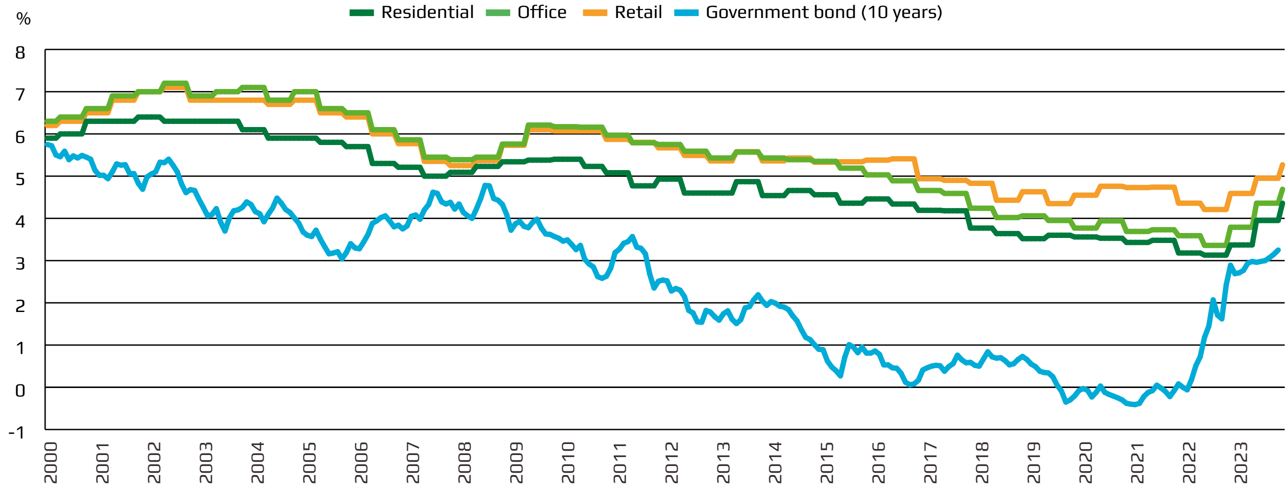
In recent years, semi-open-ended special investment funds have been the largest domestic investor group in the property market. The zero interest rate environment fueled their rapid growth, but, during the past year, the change in the operating environment has turned the funds' capital flows negative, as their investors' redemptions have exceeded the amount of new subscriptions. Many funds have reacted to the situation with changes in their rules by extending the time reserved for the redemptions and/or by reducing their frequency. During the autumn, some funds have also announced that they will postpone the payout of redemptions in order to manage their liquidity. In 2023, special investment funds have appeared in the real estate market in only a few transactions, both in the role of buyer and seller. When the property market situation stabilises and the outlook becomes clearer, the activity of special investment funds will probably increase again. However, growth like in recent years is not likely to be seen in the near future, and in the next few years at least some of the funds will probably appear in the market in the role of net sellers rather than net buyers.

The availability of debt financing tightens the market

The availability of debt financing for property investments has tightened significantly with the change in the financial market. In recent years, debt capital was available in abundance, not only from

LONG-TERM INTEREST RATE AND HELSINKI CBD PRIME YIELDS

SOURCE: RAKLI-KTI COMMERCIAL PROPERTY BAROMETER, BANK OF FINLAND



banks, but also from the capital market through bond financing. This source is now closed to most property investors, and even for those for whom the channel is still open, the price and terms of financing are very different than in the past couple of years. In the Nordic countries in total, the amount of bonds maturing in the next few years will rise to several tens of billions, which will largely have to be financed from other sources. Because of this, the lending capacity of the Nordic banks is being tested.

In the Rakli-KTI Commercial property barometer, the outlook for the availability of bank financing improved slightly compared to last spring, but the balance figure still remained strictly negative, as a third of respondents expect availability to tighten further. Alongside bond and bank financing, other sources of financing are now needed, and the majority of barometer respondents expect, for example, debt funds to increase their importance as financiers of real estate investments. The maturity of existing debt financing and other needs to restructure loans may be one of the driving forces behind property transactions in the near future.

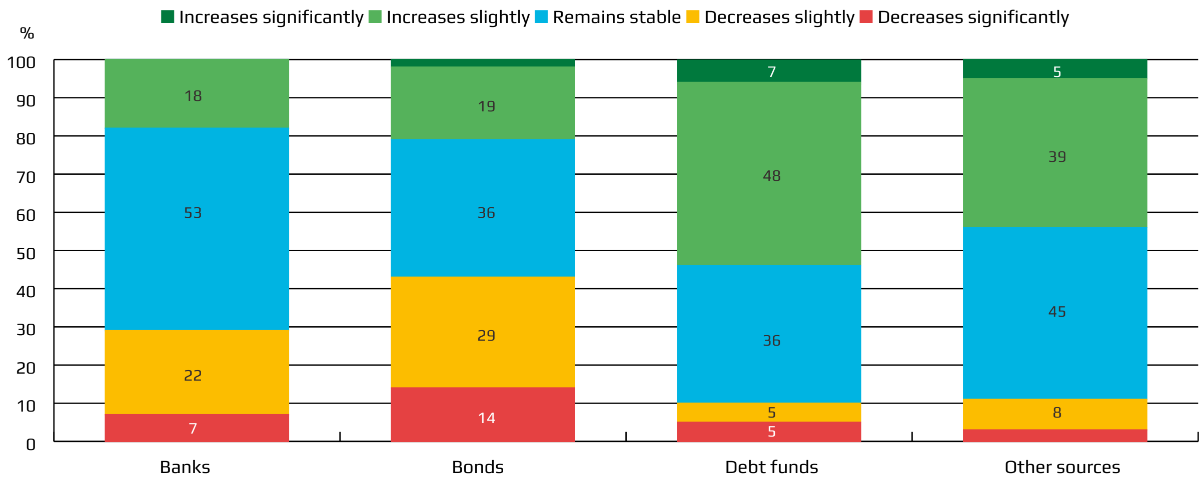
Construction volumes collapsing

One of the most significant market impacts of the increase in interest rates is the sharp decrease in new construction investments during the current year. The Confederation of Finnish Construction Industries RT predicts that the value added in construction will fall by 10 per cent this year and will continue to decline also in 2024. Housing starts are expected to remain well below 20,000 dwellings in both 2023 and 2024, while 37,000 new apartments were started last year and as many as 47,000 in 2021. Investments by professional real estate investors in new property development have been significant in recent years. The decrease in investment demand therefore also affects the demand for construction. The rise in interest rates and the weak economic situation also sharply reduce the households' intentions for home buying and willingness to borrow, as well as the investment capacity of corporations.

HOW WOULD YOU ASSESS THE VOLUME AND SIGNIFICANCE OF THE FOLLOWING SOURCES OF FINANCING TO DEVELOP WITHIN THE NEXT 6 MONTHS?

SOURCE: RAKLI-KTI COMMERCIAL PROPERTY BAROMETER

% OF RESPONSES



Volumes of residential property investment and development decreased sharply

- The supply of rental apartments will continue to increase in 2023
- Population growth and the slowdown in construction are expected to correct the occupancy rates of rental apartments
- Foreign investors have increased their investments in Finnish rental residential properties this year

The attractiveness of rental residential property investment remained strong for many years, but, during the past year and a half, the sector has faced challenges. In the early years of the 2020s, residential property yields dropped to around three per cent, and, in relative terms, the sector has now suffered the most from the rise in interest rates, as the current interest rate exceeds the net income levels of recent years. A significant adjustment in the market values of residential properties was already seen in 2022, and the decrease in values has continued in the current year.

Residential property transaction volume amounted to 600 million euros

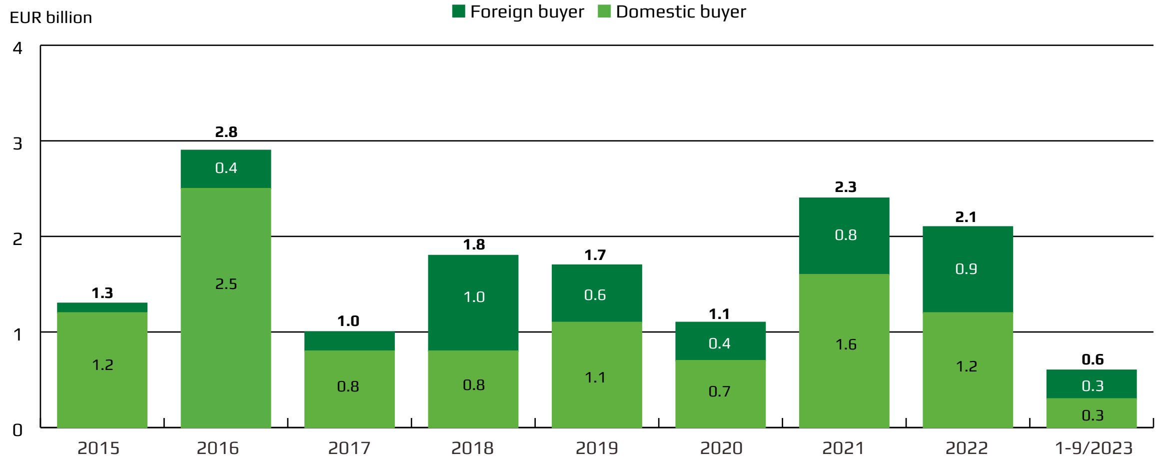
The volume of residential property transactions in the first three quarters of 2023 was approximately 600 million euros. Even in a quiet market, Finnish residential properties have continued to attract foreign investors. The largest residential portfolio transaction of the year so far was carried out by the US newcomer KKR, which together with a local investment partner Avant Capital Partners bought 1,200 apartments located in different parts of Finland from Kruunuasunnot. In the spring, Nrep bought around 200 apartments from the special investment funds of both S-Bank and OP. Of the foreign investors, AXA has also increased its residential property investments in Finland. Altogether, the share of foreign investors of all residential transactions rose to approximately 50 per cent in January-September. Otherwise, the current year's residential property transactions mainly consist of new properties sold by construction companies to domestic funds and institutional investors.

The oversupply of rental apartments in the Helsinki metropolitan area continues

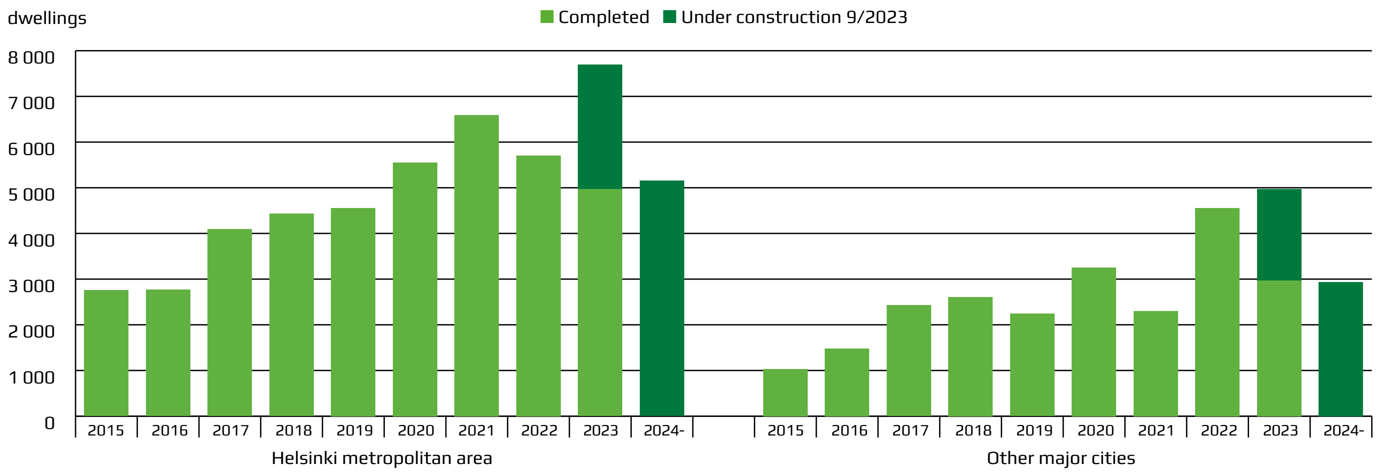
One of the most significant changes in the rental housing market in recent years has been the rapid growth of the supply of rental apartments in the Helsinki metropolitan area, which has led to a decrease in the occupancy rate of rental residential properties. In KTI's database covering more than 100,000 rental apartments, the occupancy rate in the Helsinki metropolitan area was slightly over 91 per cent at the beginning of September, while it was over 94 per cent at the corresponding time in 2020, and

RESIDENTIAL PROPERTY TRANSACTION VOLUME

SOURCE: KTI



RENTAL RESIDENTIAL DWELLINGS COMPLETED / UNDER CONSTRUCTION SOURCE: KTI, RPT BYGGFAKTA OY



Other major cities: Tampere, Turku, Oulu, Jyväskylä, Lahti and Kuopio regions

in 2019 - before the pandemic and the years of fastest growth in supply - almost 97 per cent. In large cities outside the capital region, the occupancy rates remain significantly higher, for example, in Tampere and Turku at around 95-96 per cent.

Rental growth remains moderate

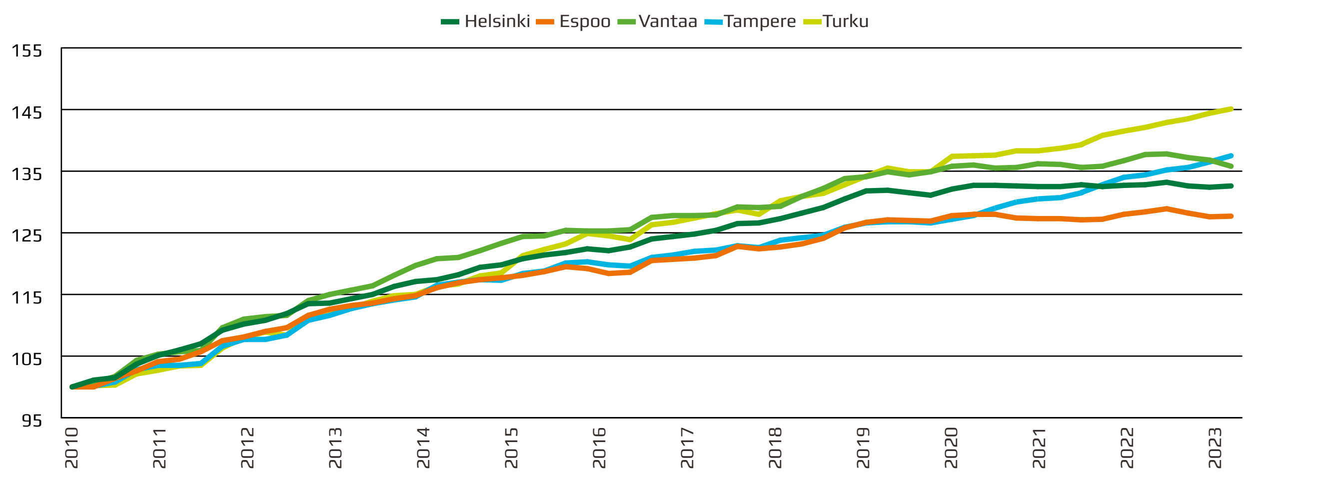
The increase in supply and growing vacancy rates have limited rental growth, especially in the Helsinki metropolitan area, despite accelerating inflation. Between September 2022 and 2023, the KTI index for new rental agreements fell by an average of 0.6 per cent in the Helsinki metropolitan area. Among the cities in the capital region, rents fell the most in Vantaa, by 1.3 per cent. In other large cities, residential rents continued to increase faster than in the Helsinki metropolitan area, and the annual growth in new agreements was 2.2 per cent on average. In Tampere and Turku, rents rose by slightly more than 2 per cent, in Oulu and Jyväskylä the increase amounted to approximately 3 per cent, while in Kuopio and Lahti the rents increased by less than half a per cent.

In the Rakli's Rental residential property barometer carried out in August, rental expectations for small apartments remained the most positive in Tampere. In almost all other large cities, expectations weakened slightly compared to last spring, but remained moderately positive. Rent expectations for large apartments are still more positive than for studios and one-bedroom apartments.

Volumes of rental residential construction are slowing down

The construction of rental apartments has been active in the largest cities in recent years. In 2020-2022, 41-44 per cent of the apartments completed annually in the Helsinki metropolitan area have been in properties targeted 100 per cent for rental use. 45 per cent of the apartments completed in Turku in the last three years, and as many as 49 per cent in Tampere, are located in properties targeted entirely for rental use. In the current year, large amounts of new rental apartments will be completed: almost 7,700 in the capital region, 2,100 in the Tampere region and 1,600 in the Turku region. The number of rental apartments completed in the capital region and Tampere will clearly decrease in 2024, but in Turku, almost as many new rental apartments will be completed in 2024 as in the current year. The slowdown in supply growth is expected to gradually melt the oversupply of rental apartments in the Helsinki metropolitan area.

KTI RESIDENTIAL RENT INDICES, MAJOR CITIES SOURCE: KTI



index Q1 / 2010 = 100, market rents, new rental agreements

Increasing office market uncertainty

- » Office transaction volumes hit rock bottom
- » Uncertainties regarding occupier demand makes investors increasingly selective
- » Office net absorption has turned negative

The weakened economic situation has increased the uncertainty of the office market all over the world. Especially in the USA and Great Britain, the discussion about the decrease in the need for space caused by the spread of remote work has been heated for the past year. Uncertainty is partially redefining the role of office properties in the real estate investment market. Investors are even more selective than previously, which further exacerbates the polarization between desirable and riskier targets.

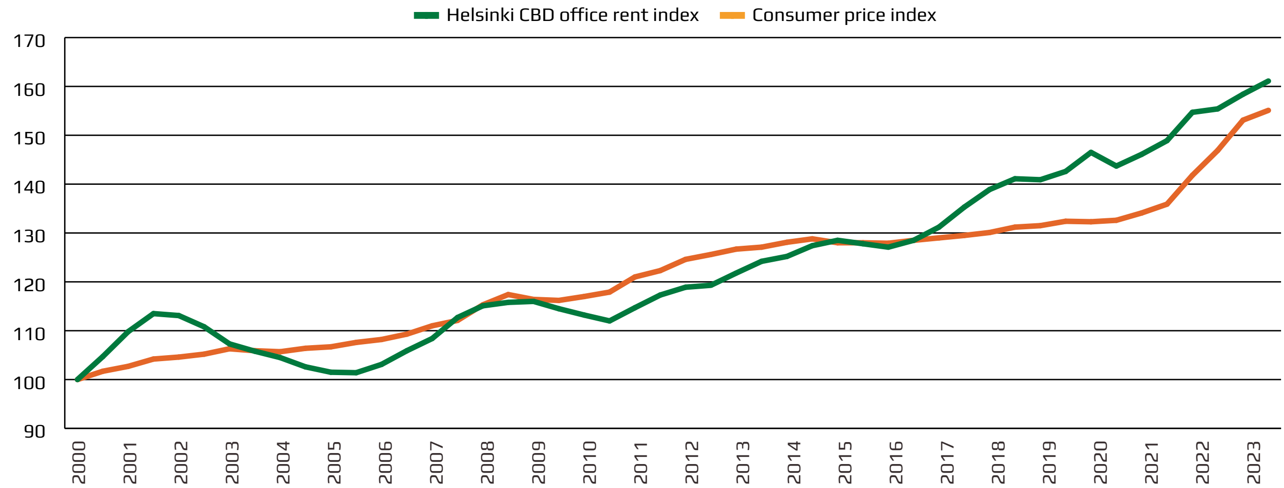
Occupier demand and rentability also determine the liquidity of office properties, and in Rakli-KTI Commercial property barometer conducted in October, more than 90 per cent of the respondents estimated that it would be challenging to divest so-called secondary office properties in the current market situation. More than 40 per cent of the respondents rated the sale of even prime assets as difficult. However, the liquidity of core assets is expected to clearly improve in the near future, while the majority of respondents estimate that the sale of riskier properties will be difficult even a year from now.

The office transaction volume consists of a few larger deals

In 2022, the share of office properties in the real estate market transaction volume remained lower than ever before in the KTI Transaction follow-up, at 17 per cent. In January-September 2023, office transactions amounted to approximately 400 million euros, which heralds one of the sector's lowest annual transaction volumes in euros ever. Almost all the major transactions have been made by investors from other Nordic countries. At the beginning of the year, Niam bought the Horisontti office site in Kalasatama from SRV, in the summer they acquired Lyyra in Hakaniemi from Ylva and Varma, and in the autumn Sampotalo in Turku. Nrep invested in Tietoevry's head office in Keilaniemi in

KTI OFFICE RENT INDEX AND CONSUMER PRICE INDEX SOURCE: KTI, STATISTICS FINLAND

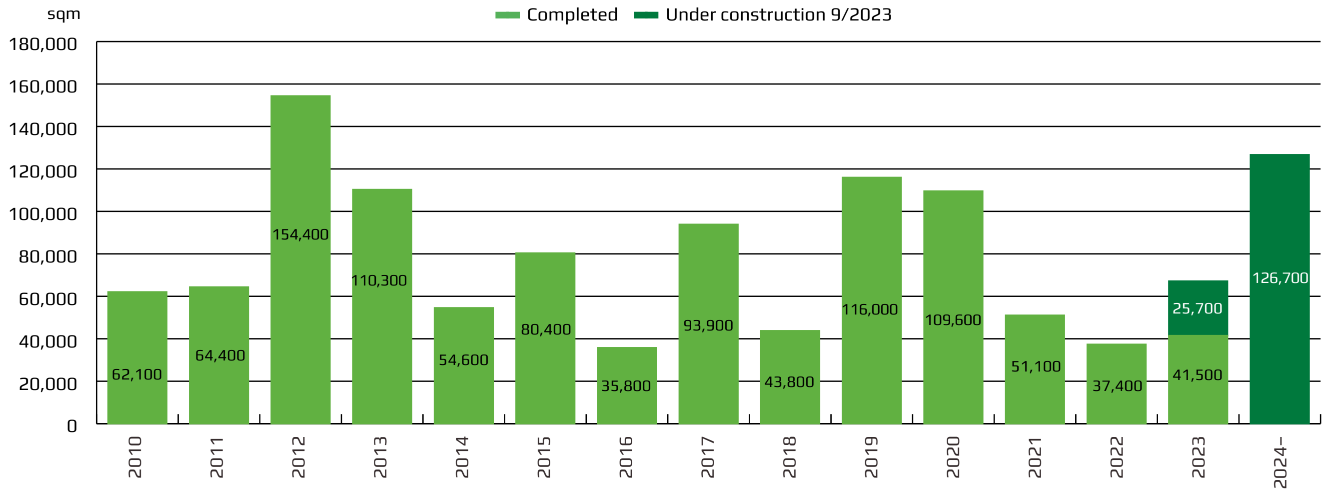
INDEX SPRING 2000=100, NEW AGREEMENTS



NEW OFFICE SPACE COMPLETED / UNDER CONSTRUCTION IN THE HELSINKI METROPOLITAN AREA

RENTABLE AREA

SOURCE: KTI, RPT BYGGFAKTA OY



the summer, and Genesta bought Voimatalo in Kamppi in Q3. The most significant domestic office deal was Maistraatinportti, which Fennia acquired from YIT in the fall.

Office rents in the centre of Helsinki increased by 3.7 per cent

KTI's office rent index describing new leases in the center of Helsinki rose by 3.7 per cent in contracts that started between September 2022 and 2023. The change in the last six months was 1.7 per cent. In KTI's rental database, the average rent per square meter of new leases remained around 33 euros, but the upper quartile fell below 35 euros. The number of contracts that started in March-August 2023 was lower than ever before in the 2000s. According to the Helsinki Research Forum formed by prominent real estate consultants, Rakli and KTI, there were almost 87,000 square meters of empty office space in Helsinki's central business district at the end of September.

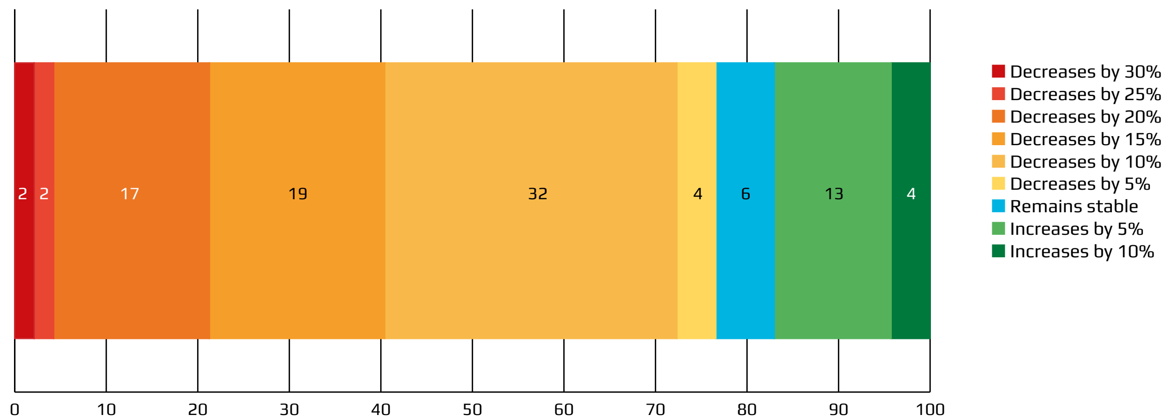
Increasing vacancy

Helsinki Research Forum's monitoring covers the 13 most relevant office submarkets in the Helsinki metropolitan area. The vacancy rate of these submarkets was 14.3 per cent at the end of September, i.e. exactly one percentage point higher than in June. The amount of empty premises increased during the summer, in addition to the central business district, for example in the areas of Aviapolis, Leppävaara and Kalasatama. Vacancy rates of over 20 per cent can be found in Pitäjänmäki, Aviapolis and Vallila. The net take-up in the last quarter was positive, i.e. the amount of office space in use increased in couple of office areas, such as Pasila, Vallila and the areas surrounding the CBD. In total, however, the net take-up was negative in the office submarkets that Helsinki Research Forum is monitoring. In the KTI rental database, which monitors the property investments of professional landlords, the occupancy rate of offices in the Helsinki metropolitan area fell to below 78 per cent in September.

HOW WOULD YOU ASSESS THE NEED FOR OFFICE SPACE (SQM) TO CHANGE IN THE HELSINKI METROPOLITAN AREA WITHIN THE NEXT THREE YEARS?

SOURCE: RAKLI-KTI COMMERCIAL PROPERTY BAROMETER

% OF RESPONSES



Rental outlook under pressure

In the Rakli-KTI Commercial property barometer, the balance figures for office rent forecasts improved slightly from last spring in Helsinki CBD and Tampere. In all other areas, the balance figures remained negative and fell lower than last spring. Vacancy outlook also weakened from last spring, and 61 per cent of respondents in the capital region and 58 per cent in the rest of Finland expect office vacancy to increase in the coming six months. The outlook for the office rental market was now more negative in the barometer than for any other commercial sector.

For the first time, a question was added to the barometer about the respondents' assessment of the development of the overall need for office space in the next three years. Three out of four respondents estimate that space demand will decrease, and 40 per cent estimate the reduction to be 15 per cent or more. Only 17 per cent of the respondents believed that space demand would increase.

More than 150,000 square meters of new office space is under development

According to KTI's construction project monitoring, at the end of September, more than 150,000 square meters of new office space was under construction in the capital region. A total of just under 70,000 new office square meters will be completed in 2023 and almost 100,000 in 2024. The most significant sites that have been completed or are being completed this year include Lyyra in Hakaniemi, Ilmalanrinne in Ilmala and Supo's new headquarters in Kaartinkaupunki. The biggest projects started during the current year are the Kalasataman Horisontti and the Keilaniemen Portti. At the end of September, outside the Helsinki metropolitan area, the most new offices were under construction in Oulu, around 40,000 square meters. There were more than 20,000 square meters of new office space under construction in Tampere and just under 13,000 square meters in Turku.

Retail occupancy remains high, but downward pressure on rents

- Shopping centre occupancy over 95 per cent
- Mainly small retail assets have been transacted this year
- Shopping centre sales have increased less than inflation

Retail properties have been challenged in many ways over recent years and are being directly affected by the weakening of consumers' purchasing power. So far a major collapse has been avoided. A decrease in shopping centre occupancy rates has been expected for some time, but they have nevertheless remained relatively high, and even improved during the previous 12 months. At the end of June, the occupancy rate of retail premises in shopping centres was on average 95.4 per cent. In the capital region and other major cities, the occupancy rate of retail premises in shopping centres has risen to over 96 per cent.

In the Rakli-KTI Commercial property barometer, just under 40 per cent of the respondents estimate that the outlook for the retail rental market will deteriorate in the coming year. According to the respondents of the barometer, the rental outlook is mostly flat or slightly negative. The balance of rental expectations was positive, if just barely, in Tampere, where the balance figure was now higher than in other cities for the third time in a row. More than a third of the respondents estimate that retail rents in central Helsinki will decrease in the next six months.

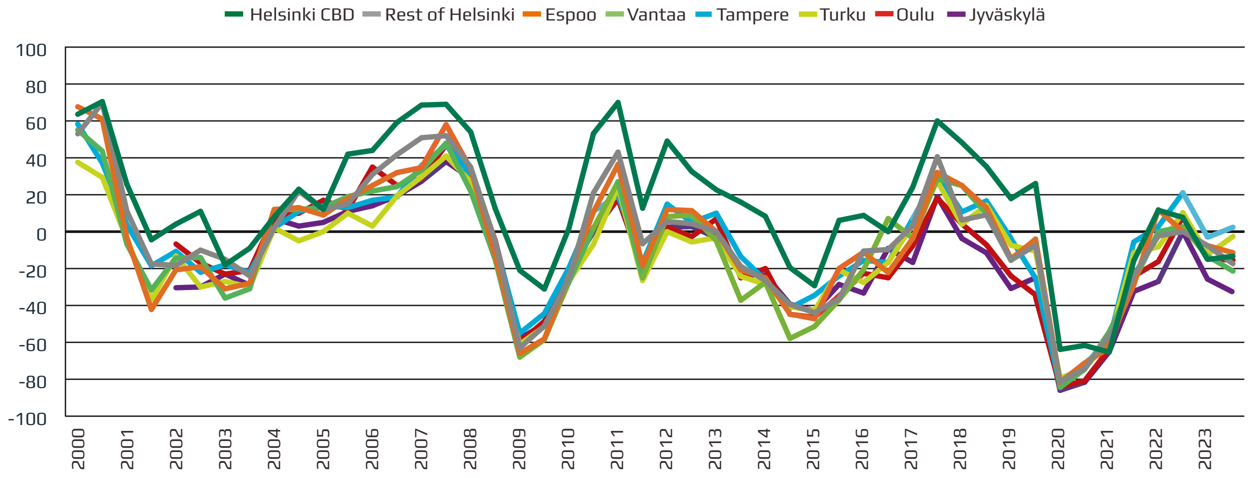
Transaction and construction volumes remain low

In January-September of this year, the share of retail property transactions in the total volume was only ten per cent, i.e. deals were made for less than 200 million euros. More than twenty deals worth over a million euros have been made, but the average size of the transactions has been quite small. Kesko acquired the Espoontori shopping centre located in Espoon keskus in the autumn and acquired a few other retail properties as well this year. Other companies that have

OUTLOOK FOR RETAIL RENTS

SOURCE: RAKLI-KTI COMMERCIAL PROPERTY BAROMETER

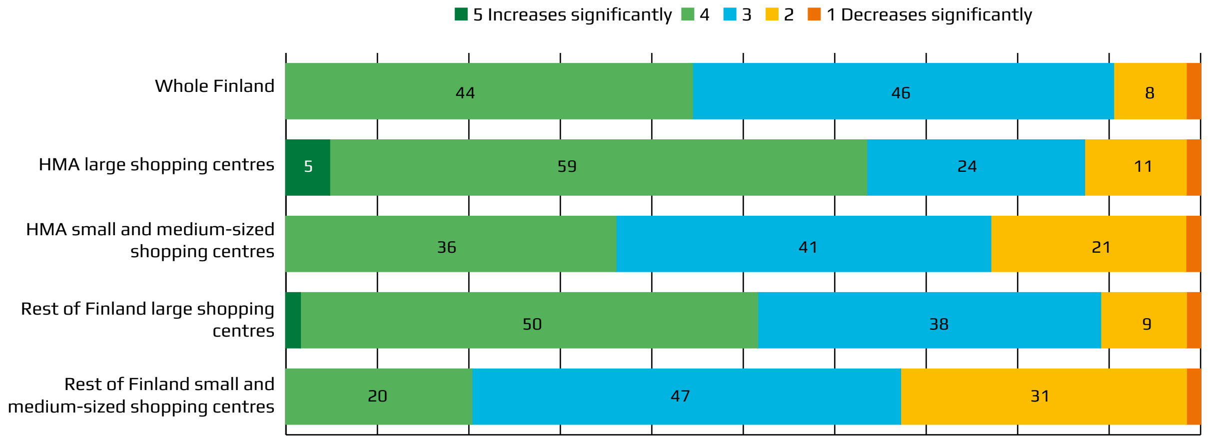
BALANCE FIGURES



If the balance figure is positive, greater amount of the respondents expects rents to increase.

OUTLOOK FOR TOTAL SALES IN SHOPPING CENTRES WITHIN THE NEXT 12 MONTHS

SOURCE: FINNISH COUNCIL OF SHOPPING CENTERS / SHOPPING CENTER BAROMETER 2023



HMA = Helsinki metropolitan area
Large shopping centre = over 40,000 sqm

been active on the buy side have been, for example, the Swedish Sagax, which has bought a few retail properties this year in Oulu and Turku, and the domestic investment company Innovestor, which has continued its investments in modern big box-retail properties. In addition to Espoontori, the second shopping centre transaction of the year took place in the spring, when the special investment fund Evli Vuokratuotto bought the shopping centre Ristikko in Helsinki's Konala from Hartela and Ilmarinen.

Construction volumes have also remained low, although in the Helsinki metropolitan area the volumes have increased slightly when a few new projects were launched during the third quarter. The completion of the Kivis shopping centre at the beginning of October reduced the volume of ongoing projects, so at the end of October the construction of approximately 45,000 new square meters of retail space was underway in the capital region. In other major cities too, the volumes of retail construction remain low. A few new projects are underway in the Tampere region, and in the rest of Finland there are only a few new retail construction projects underway.

Shopping centre sales increased in nominal terms in the second quarter

According to the sales and visitor indices of KTI and the Finnish Council of Shopping Centers, the number of visitors to shopping centres increased by 6.8 per cent in April-June of the current year and total sales by 4.6 per cent compared to the corresponding period in 2022. The growth in total sales was fueled, for example, by the strong growth rates of health and beauty goods as well as grocery and department store trade. However, the growth of total sales in the second quarter was more than two percentage points lower than inflation. Sales of furnishing, home decor and supplies as well as leisure and entertainment services decreased in April-June compared to the previous year.

Shopping centre rents are expected to decrease

According to the Finnish Council of Shopping Centers' Shopping Center barometer conducted in October, expectations for the development of visitor numbers and sales remain positive, especially in large shopping centres. Almost two-thirds of the barometer's respondents estimate that both the number of visitors and sales will increase in the large shopping centres in the Helsinki metropolitan area, and the outlook for large shopping centres in other parts of Finland is clearly positive. However, retail space rents in shopping centres are estimated to decrease throughout Finland. Even in the large centres of the capital region, slightly more respondents anticipate a decrease in rents than an increase.

Industrial properties are still relatively attractive

» Over 400,000 sqm of new industrial space under construction in the Helsinki region
» A few large logistics property transactions completed in 2023

The outlook for industrial properties has remained more positive compared to other commercial property sectors. In the Rakli-KTI Commercial property barometer, the rental outlook of industrial properties was positive in all major cities. The expectations were most positive in Vantaa, Helsinki and Espoo. In all these cities 50-60 per cent of the respondents expected that industrial rents will increase during the next six months. Almost 40 per cent of the respondents expected that conditions in the industrial rental market will get better during the next 12 months, and vacancy rates are expected rather to decrease than increase in the Helsinki metropolitan area.

Industrial property yields are also increasing due to rising interest rates. In the Rakli-KTI Commercial property barometer, the average yield of a high-quality industrial property in the Aviapolis district in Vantaa was now quoted at 6.1 per cent, i.e. 0.4 percentage points higher than in spring 2023. The lowest quote for the industrial property yield in Aviapolis was 5.0 per cent in spring 2022.

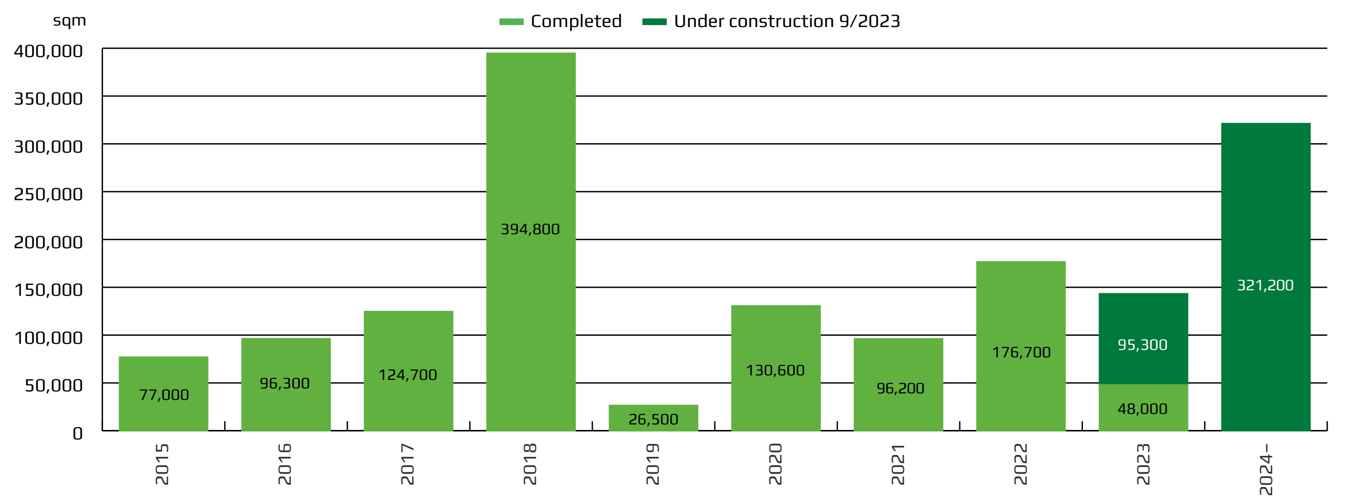
Construction volumes remain high

Several new logistics and other industrial property construction projects have been started also in 2023. In total, there were almost 420,000 sqm of industrial properties under construction in the whole Helsinki region at the end of September 2023. Property development volumes are high especially in Vantaa and in the smaller municipalities in the Northern Helsinki region. The largest project under construction

NEW INDUSTRIAL SPACE COMPLETED / UNDER CONSTRUCTION IN THE HELSINKI REGION

SOURCE: KTI, RPT BYGGFAKTA OY

RENTABLE AREA, WHOLE HELSINKI REGION (14 MUNICIPALITIES)



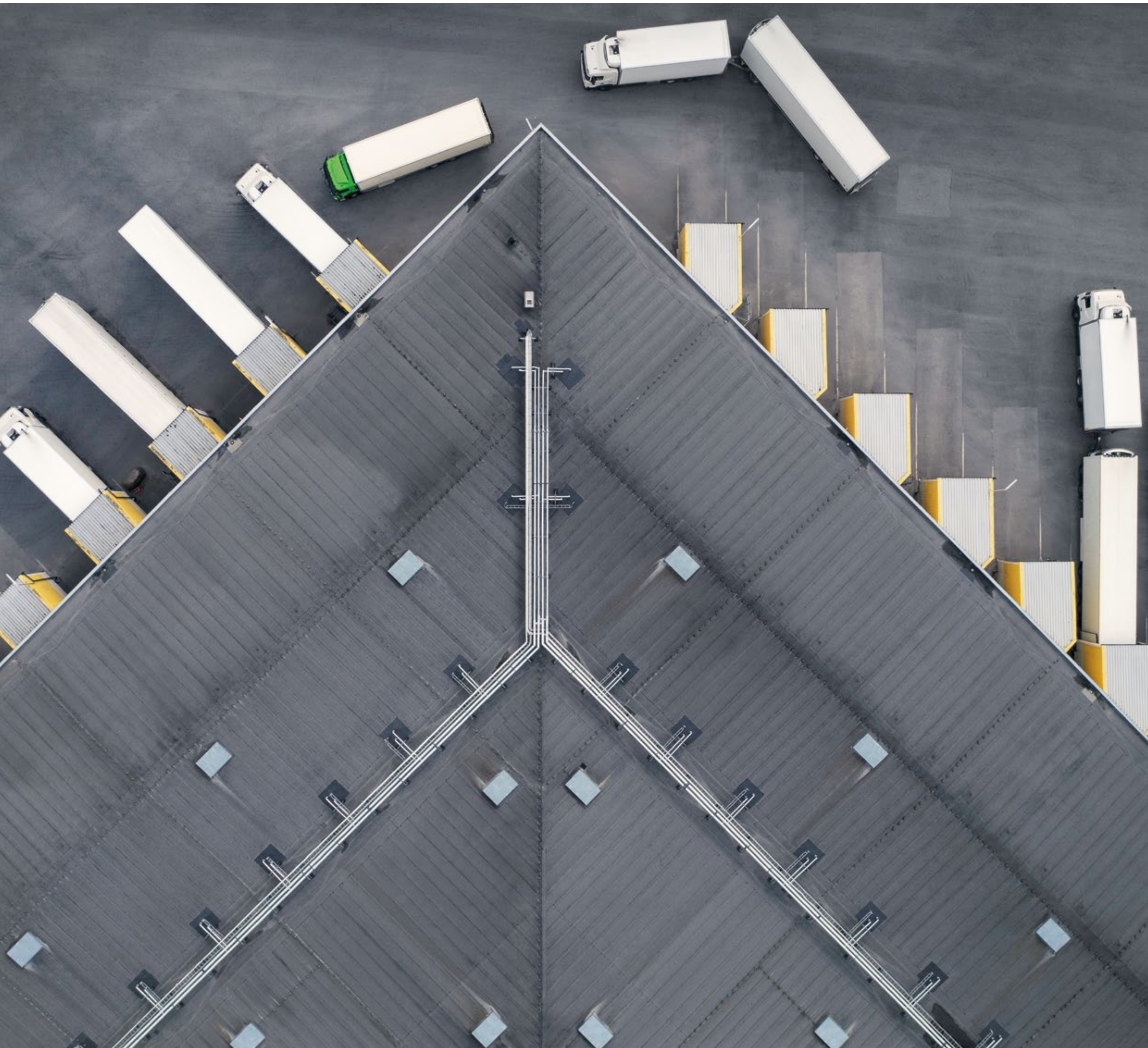
is the new logistics centre for Onninen and K-Auto in Hyvinkää. Kesko develops the property, which comprises over 80,000 sqm of space. Other major projects under construction include the new logistics centre for Tokmanni in Mäntsälä (Nrep Logicenters as investor) and the logistics centre for DHL Supply Chain in Sipoo (Allianz Real Estate as investor).

A few major industrial property development projects have been started during 2023 also in other cities, for example in the Tampere region and in Kuopio. According to the forecast of the Confederation of Finnish Construction Industries RT, industrial property construction starts will, however, decrease in 2023, but in 2024 they are expected to increase again.

The share of industrial property transactions increasing

Although the transaction volume has decreased also in the industrial property sector, the sector's share of the total transaction volume has increased. In January-September 2023, industrial property transaction volume amounted to approximately 330 million euros, which accounted for 19 per cent of the total volume. The share of industrial property transactions has not been as high since 2014. More than 70 per cent of the respondents of the Rakli-KTI Commercial property barometer expected that industrial property transaction volume will increase during the next 12 months.

In 2023, the largest industrial property deals have mostly been the transactions of single logistics assets. The buyers have been either foreign investors or domestic property funds, such as Blackstone, Nrep Logicenters and VVT Property Fund II Ky. The largest portfolio deal of the year took place in late spring, when Sagax acquired six warehouse and light industrial properties in the sale-and-leaseback transaction from MEKO for €36.5 million. The portfolio is located in the Helsinki metropolitan area.



Public use property transaction volume decreased significantly

» Public use property transaction volume 250 million euros in Q1-Q3
» Foreign investors have done the largest transactions this year

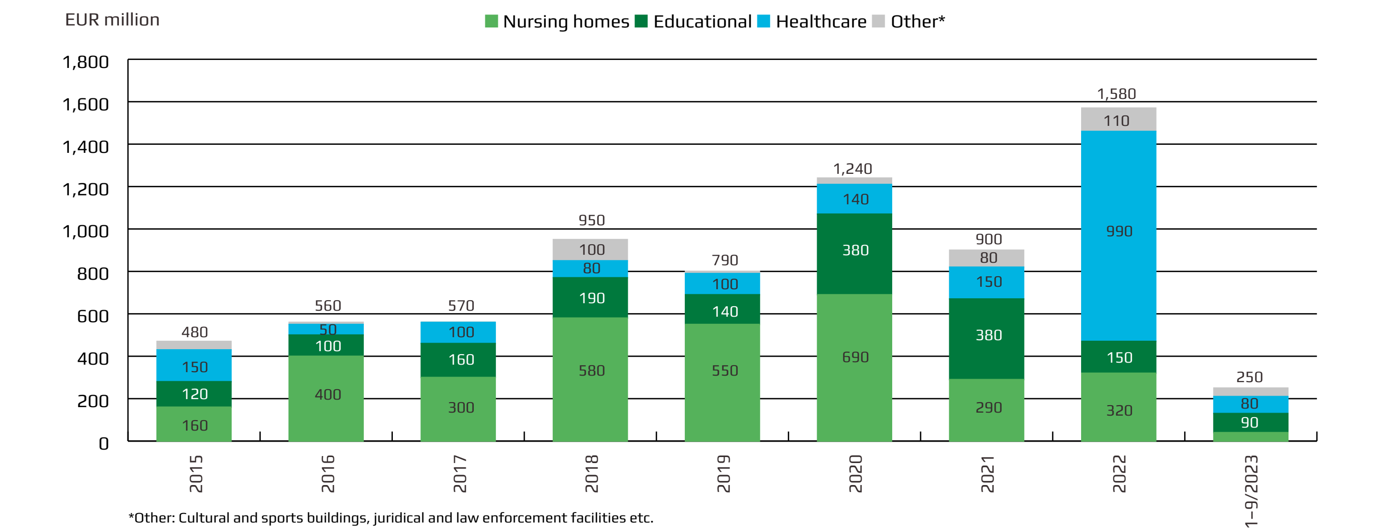
Public use properties have attracted investors in recent years, but economic uncertainty reflects strongly also in this property sector. The challenges of Finnish public finances are also increasing the uncertainty in public use property sector. The outlook is, however, still rather stable: 60 per cent of the respondents of the Rakli-KTI Commercial property barometer expected that conditions in the public use property rental market will remain stable during the next 12 months. One fourth expected that conditions will improve, and 15 per cent of the respondents estimated that the rental market outlook is weakening.

Foreign investors continue to invest in Finnish public use properties

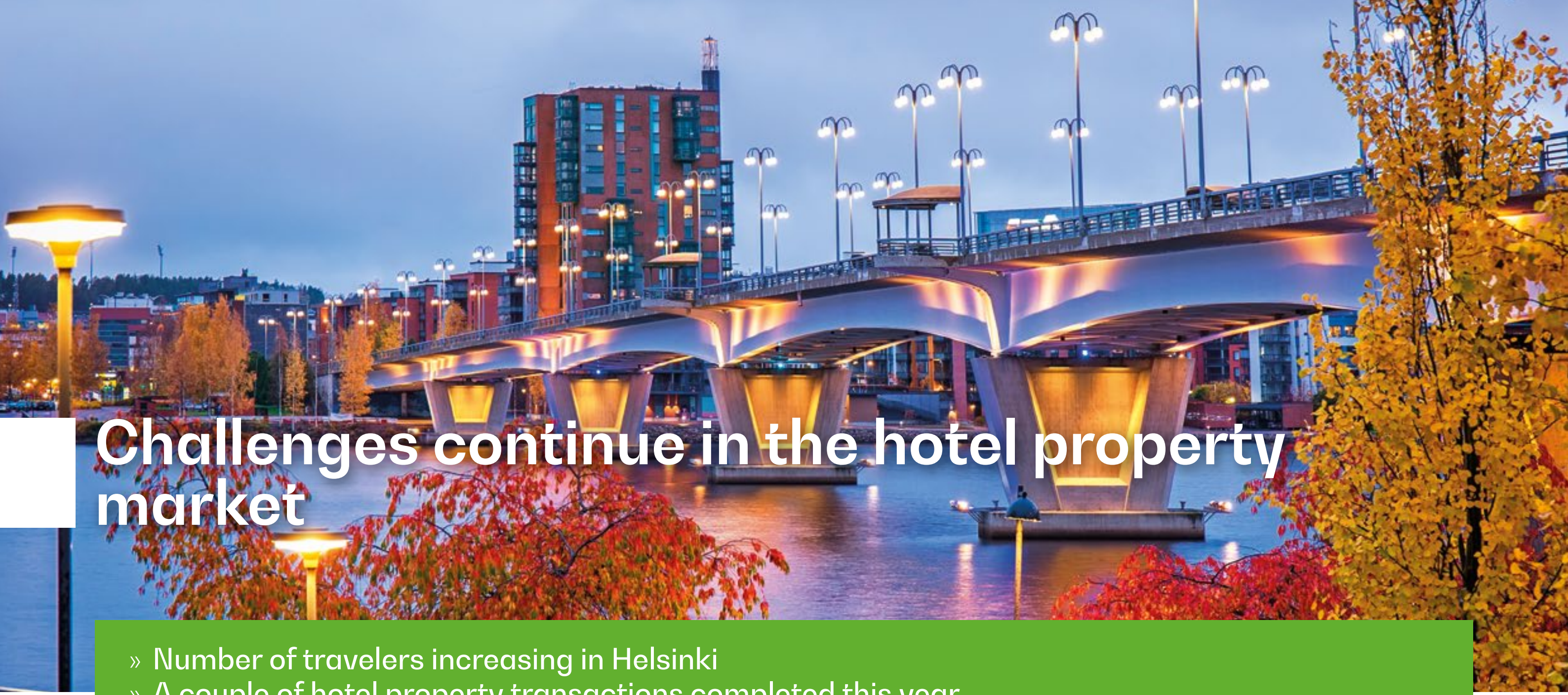
Transaction activity has dropped markedly in public use properties in 2023. According to KTI statistics, the public use property transaction volume reached only some 250 million euros in January-September 2023. During 2018-2022 the average annual transaction volume has been approximately 1.1 billion euros, but this year the figure will most likely remain much lower compared to the five previous years.

Foreign investors have been active in the largest public use property transactions in 2023. Norwegian investor Kinland acquired a total of 31 public use properties in three separate transactions from special investment fund OP-Palvelukiinteistöt, Hoivatilat and Hoivarakentajat. The total transaction price amounted to some 70 million euros. Hoivatilat, owned by the Belgian investor Aedifica, has also made a number of new investments in the Finnish public use property sector by developing many kinds of care and educational properties across Finland. Of the foreign investors, Swiss Life and Nordisk Renting have also bought public use properties in Finland this year. A few transactions have also been completed by wellbeing services counties, municipalities and non-profit organisations, such as Y-Säätiö. Domestic property investors have not been very active in the public use property transaction market in 2023.

PUBLIC USE PROPERTY TRANSACTION VOLUME SOURCE: KTI



*Other: Cultural and sports buildings, juridical and law enforcement facilities etc.



Challenges continue in the hotel property market

» Number of travelers increasing in Helsinki
» A couple of hotel property transactions completed this year

Russia's war of aggression in Ukraine is still weakening the outlook for the Finnish hotel properties, since travelling between Finland and East Asia has become more time-consuming and Russian tourists are not entering Finland. However, the attractiveness of Nordic countries may increase due to very hot weather in Southern Europe in recent summers. According to the statistics of the City of Helsinki, the number of overnight visits increased by 5 per cent in June-August 2023, compared to summer 2022. The amount of foreign visitors increased by as much as 15 per cent.

One fourth of the respondents of the Rakli-KTI Commercial property barometer expected that conditions in the hotel rental market will get better during the next 12 months, while well over half of the respondents estimated that conditions will remain stable.

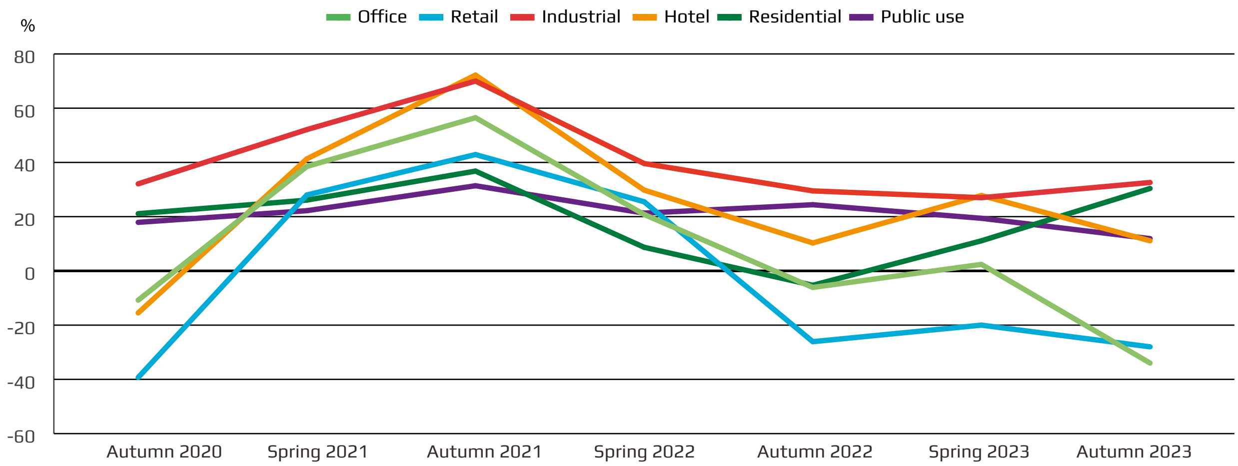
Transaction volume remains low, construction volumes decreasing

Hotel property transaction volume has remained very low in the whole of Finland for several years. In 2023, a couple of hotel property transactions have, however, been completed. Special investment fund UB Nordic Property Fund (AIF) acquired two hotel properties in Helsinki in spring. Both properties have been leased to Forenom. In summer, Swedish property investor Slättö made its first hotel property investment in Finland by acquiring a hotel property in Kasarmikatu in the Helsinki CBD. The property will be refurbished into a modern hotel in collaboration with the rental operator Bob W.

New hotel development projects have not been started in 2023 in major cities. Therefore, the development volumes, which have been high especially in the Helsinki metropolitan area, are decreasing. There is still, however, about half dozen new hotels, comprising some 2,000 hotel rooms under construction in the Helsinki metropolitan area. In addition, a couple of major hotel redevelopment projects are underway.

OUTLOOK FOR THE CONDITIONS IN THE RENTAL MARKETS SOURCE: RAKLI-KTI COMMERCIAL PROPERTY BAROMETER

BALANCE FIGURES



If the balance figure is positive, greater amount of the respondents expects the conditions in the rental markets to improve.

KTI Finland

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

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