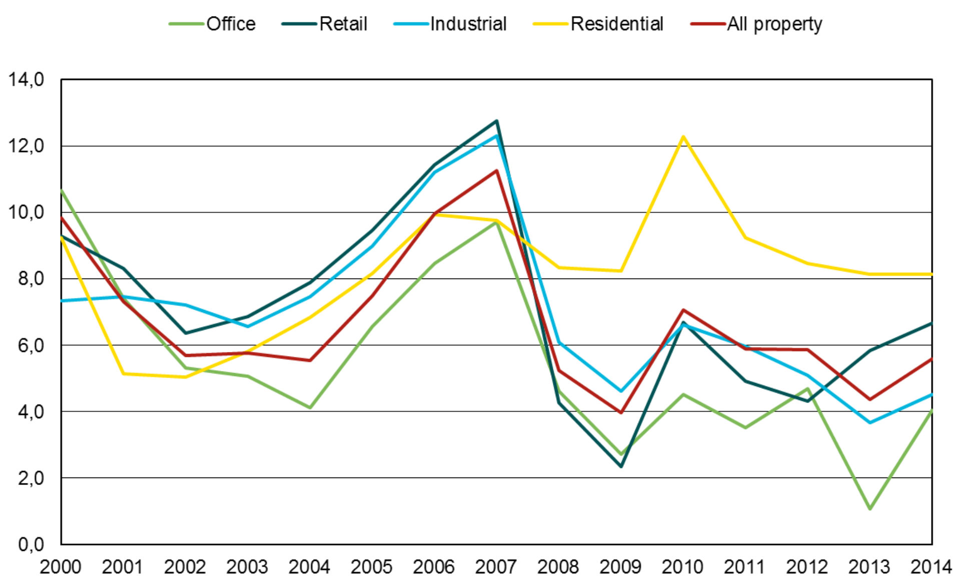
KTI Index: Finnish property investments delivered a total return of 5.6% in 2014

The total return on the Finnish property investment market was 5.6% in 2014. Residential was the best performing property sector for the seventh consecutive year, due to the positive development of market values. In all commercial property sectors, capital growth remained negative. Income return remained stable.

The KTI Index measures the total return on direct, unleveraged property investments, and is composed of two components: income return, which measures net rental income in proportion to market value, and capital growth, which measures the annual change in market values. Income return remained stable at 6.3%, which is a strong level by international comparison. Despite the challenging economic situation in Finland, both occupancy rates and rents passing remained stable. Capital growth was positive for the residential sector, while all commercial property sectors witnessed negative capital growth. Market values decreased by 0.6% across all property sectors.

Total returns by property sector 2000-2014



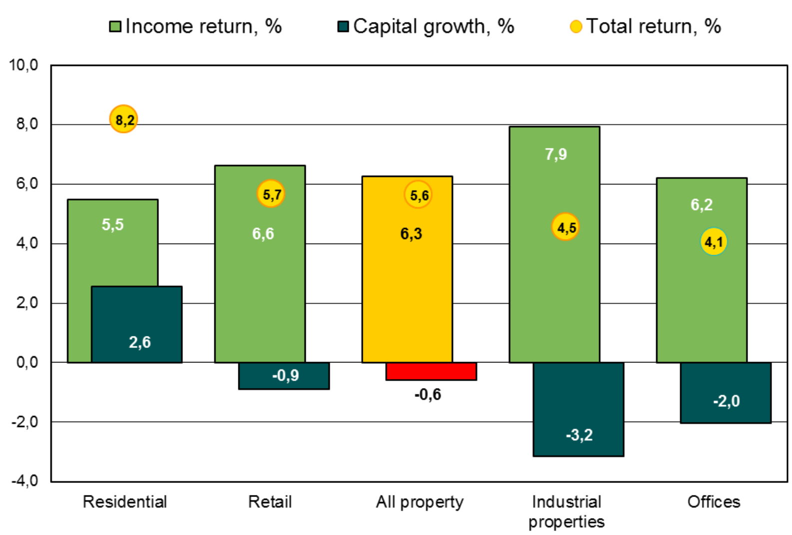
Residential was the best performing sector - again

Residential properties have been the best performing property sector in the KTI Index every year since 2008. In 2014, they delivered a total return of 8.2%. Strong demand for rental apartments supports the attractiveness of residential properties in the investment market, and their share in the KTI Index database has increased rapidly. It now stands at 26%, having been less than 20% just two years ago. In 2014, market values of residential properties increased by 2.6% on average, with the Helsinki metropolitan area showing the strongest performance. Continuing increase in rents and high occupancy rates support the income return, which was 5.5% in 2014.

Market values for offices decreased for the seventh consecutive year

Office properties have traditionally been the most favored property sector by Finnish institutional investors. However, due to their poor outlook, their attractiveness has decreased during the past years, and their share of the KTI Index database has now decreased to less than one third. Market values of offices have fallen every year since 2008. In 2014, the capital growth was -2.0%, which was, however, less negative than the year before when values dropped by 4.6%. More than one million square meters of vacant office space in the Helsinki metropolitan area led to quite strongly depreciated market values in some areas outside the Helsinki central business district. The Helsinki CBD, however, retained its attractiveness and capital growth remained in positive territory. Office properties' income return increased to 6.2%, mainly supported by decreasing market values. Rents remained stable and occupancy rates remained unchanged although low at 86%. As a result, office properties delivered a total return of 4.1%, which was, however, higher than the year before when total return for offices was the lowest in KTI Index history, at 1.1%.

Returns by property sector 2014



Capital growth slightly negative also for the retail property sector

Retail properties delivered a total return of 5.7% in 2014. Market values declined by approximately one per cent, but net income remained stable at 6.6%. Challenging times in the retail sector and a poor outlook for consumer demand were seen in the retail properties' performance: rental values decreased and yields increased slightly. However, occupancy rates remained at the high level of 94%. Shopping centres delivered lower returns than retail properties on average, mainly due to their lower income return, which stood at 5.9%. In 2014, market values of shopping centre properties decreased slightly more than for other retail properties.

KTI Property Information Ltd ■ Eerikinkatu 28, 7th floor ■ 00180 Helsinki, Finland
tel +358 20 7430 130 ■ fax +358 20 7430 131 ■ email: kti@kti.fi ■ www.kti.fi

High income return supports industrial properties' performance

The industrial property sector delivered a total return of 4.5% in 2014. Market values continued decreasing by 3.7%, mainly due to an increase in yields. Income return was 7.9%, down from 8.1% in 2013, due to declining passing rents and slightly deteriorated occupancy rates. Warehouse properties produced lower returns than other industrial properties in 2014, due to more negative capital growth.

KTI is an independent research organisation and service company providing information and research services for the Finnish real estate industry. KTI Finland has been calculating the KTI Index since 1998. 24 property investors contribute to the KTI Index. The database currently comprises some €23.0 billion worth of properties, thus covering about 43 % of the total property investment market in Finland. The KTI Index covers all major property sectors and cities in Finland.

The KTI Index measures ungeared total returns on direct property investments in Finland, consisting of two components: income return and capital growth. It is calculated on standing investments only, i.e. properties held from one valuation to the next. KTI has done its best to ensure the correctness and comparability of the data. KTI is not liable for any remaining inaccuracies.

CONTRIBUTORS TO THE KTI INDEX:

Fennia
Turun Teknologiakiinteistöt
CBRE Global Investors
Ilmarinen
HYY Kiinteistöt
LähiTapiola
Sato
Pohjola
Keva
Etera
Exilion
Aberdeen Asset management
Trevian Asset Management
Varma
Sampo Group
Senaatti Kiinteistöt
VVO
Sveafastigheter
Elo
Citycon creating success for retailing
Veritas Eläkevakuutus
Cornerstone Real Estate Advisers
Genesta

IPD Compliance:
Comparability with IPD Indices for other countries: based on information on its methods and data supplied by KTI, IPD believes that the KTI Index is compatible in sources and methods with the indices constructed by IPD. The KTI Index is therefore suitable for the purposes of broad comparison of property investment performance across other IPD country indices.