

Helsinki Metropolitan Area (HMA) Office MarketView

Q3 2014

CBRE Global Research and Consulting

▼ GDP
-0.6% (Y-o-Y)

▼ CPI
1,3% (Y-o-Y)

▲ UNEMPLOYMENT RATE
8,2% (Sep)

HELSINKI OFFICE MARKET

- SALES VOLUME IS IMPROVING AND INDIRECT PROPERTY OWNERSHIP IS GROWING

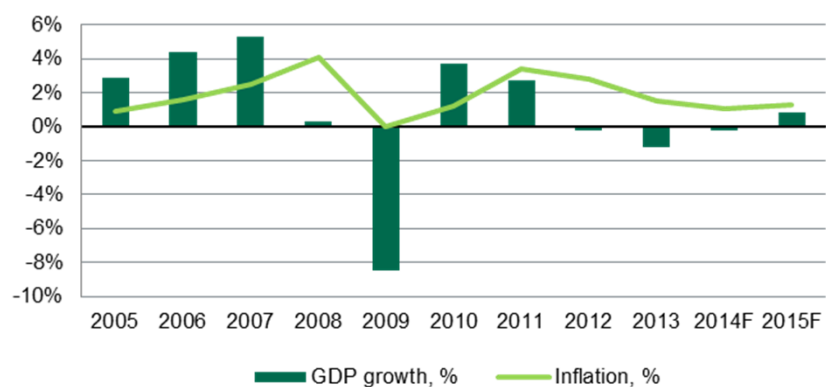
Quick Stats

Q3 2014		Q-o-Q
Office sales volume (€ mil.)	ca. 225	↑
Share of total volume	12,6 %	↑
Number of transactions (over €1 mil.)	12	↑
Cross border sales	67%	↓

Hot Topics

- Overall office vacancy in the HMA is rising, with the CBD being the exception with the vacancy rate remaining steady
- Rental growth is slowing in the CBD and there is pressure for rental declines in many other markets
- The investment market is improving and office sales volume in 2014 is expected to exceed last year's volume
- Indirect property investment is growing which can be evidenced in a rising share of sales to property funds

Chart 1: GDP Growth and Inflation



Source: Tilastokeskus

Economic overview

Finland has been more affected than most other European countries by the Ukrainian conflict due to Russia being an important trade partner to Finland. This is slowing economic growth and forecasts for 2014 have been downgraded from earlier in the year and essentially zero growth is expected in 2014. This is still an improvement from the 1.2% decline in GDP 2013. The current forecasts for 2015 show growth of ca. 0.9%.

Due to the recession and uncertain financing climate in Europe, the majority of business investments are on hold. This strongly affects the Finnish export market, which is mainly driven by European consumption. Exports improved by 0.9% during Q2, after negative figures in Q1 2014 (-1.9%) and 2013 (-1.7%), which contributed to the slight positive GDP development in Q2. However there is no real positive trend in GDP and GDP during the first half of 2014 was down from the previous year.

The forecast inflation for 2014 is 1.1%, which is down slightly from 1.5% in 2013.

The average unemployment rate in 2013 was 8.2% and this rate has been edging higher in 2014 and the forecast for the year is ca. 8.6%. This is impacting on private consumption which has remained at a low level, despite record low interest rates, which are among Europe's lowest. Private consumption in 2013 was down by 1.8% and the forecast for 2014 is for consumption to remain at the same level. It requires strengthening in the general economic climate and the employment situation before consumption can truly start improving.

Source: Tilastokeskus

HELSINKI OFFICES

DEMAND

Demand for prime office properties is high and sales activity has been constrained by limited stock available for sale. Yield levels have been stable and we expect this trend to continue in the future, although there could be some yield compression for very prime CBD properties. The prime office yield in the Helsinki CBD is currently at a level of ca. 4.6%.

VACANCY

The office vacancy rate in the Helsinki CBD has been quite stable and this trend is expected to continue. The biggest challenges are in older secondary quality premises and in secondary office areas outside the CBD. Office vacancy is highest in the HMA area in the city of Espoo. The oversupply of office accommodation in the HMA has resulted in an increase in conversion projects into residential and hotel use. The vacancy rate forecast for the HMA in 2014 is 12% and for the Helsinki CBD 6%.

RENTS

The rents in the Helsinki CBD and in new premises in prime areas have been increasing slightly, although this growth now appears to be slowing.

The gap in rents determined by geographic location and building quality is expected to widen in the future. Prime gross rents in the Helsinki CBD are currently EUR ca. 37/sqm/month. Some areas outside the CBD are experiencing rental decline pressures.

In general, the current market situation is in favor of tenants, and landlords are giving rent free months as well as contributing to tenant fit-out costs, mainly for larger premises.

SUPPLY

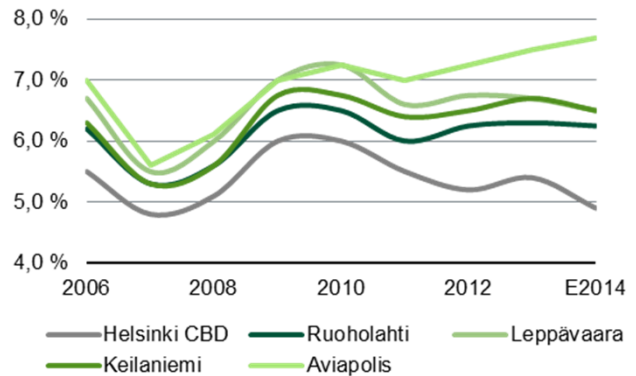
New office construction starts in 2014 so far amount to ca. 55 635 sqm, compared to last year's total of 76 500 sqm.

Notable developments underway include OP-Pohjola Group's office campus in Vallila (60,000 sqm), Stage 4 of Alberga Business Park, Ilmalanrinne office building in Pasila (15,000 sq m) and Ultimes Business Garden in Pitäjänmäki (11,000 sq m).

The most significant recent completions have been the Ernst & Young and KPMG buildings in Töölönlahti (16,150 sq m & 18,500 sq m) and Eventes Business Garden in Matinkylä in Espoo (14,100 sq m).

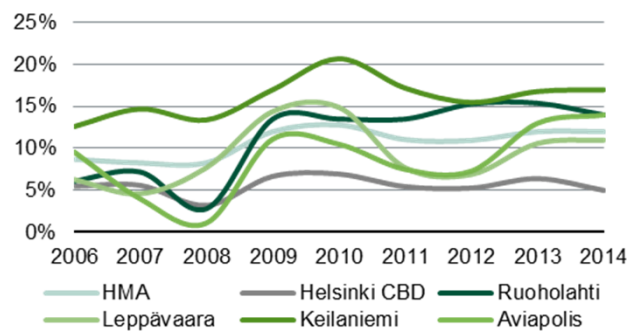
Source: KTI

Chart: Helsinki Metropolitan Area Yields



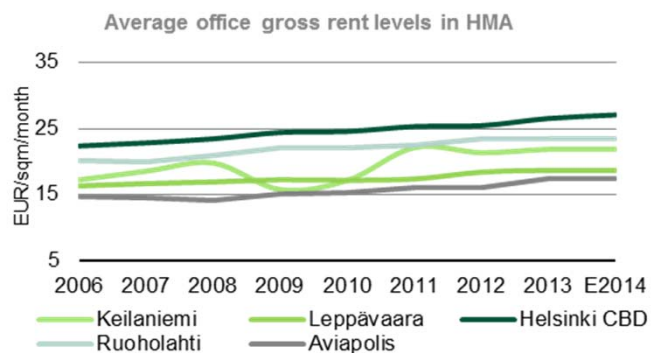
Source: CBRE Research

Chart: Helsinki Metropolitan Area Vacancy



Source: CBRE Research

Chart: Helsinki Metropolitan Area rent levels



Source: KTI/CBRE Research

INVESTMENT

Total Investment

Q3 2014 saw exceptionally high transaction volume in Finland, due to one very large sale of 124 industrial properties from the pension fund Varma, Sponda and 3 Sponda funds to a newly established publicly listed company Certium for €917 million. The sellers will remain majority owners in Certium. Including this related party transaction, the sale volume in Q3 was 1.79 billion, exceeding the volume for H1 2014. Excluding this transaction, sale volume was ca. 0.87 billion, which is still more than double the volume in Q3 2013.

Industrial was unusually the most traded asset type in Q3, representing 54% of the total volume. This was followed by office which comprised 21% of the volume and retail at 16%.

HMA Office Investment

Prime grade HMA offices continue to be in good demand by both domestic and foreign investors. Ca. 67% of the sales volume in Q3 related to sales to foreign investors and any future growth in demand is expected to be driven by foreign investment.

There is also a trend of Finnish institutional investors using indirect property investment instead of direct property investment more than in the past. This trend can be seen in investment activity, with ca. 84% of the HMA office sales volume year to date relating to sales to property funds, in comparison to 27% of the investment volume in 2013. Sales to foreign funds are also partly attributable for this increase.

Finnish pension and insurance funds have not been active buyers of HMA offices through direct property ownership in 2014 as they were in the past.

Office Deals

Major office deals in the HMA area in Q3 2014 include:

- **SRV sold the Derby Business Park in Espoo to Swedish investor Niam**

The business park, which was completed in 2013, consists of 3 office towers and a parking facility and was almost fully let. It includes the head office of SRV and Siemens Finland. The sale price was not released.

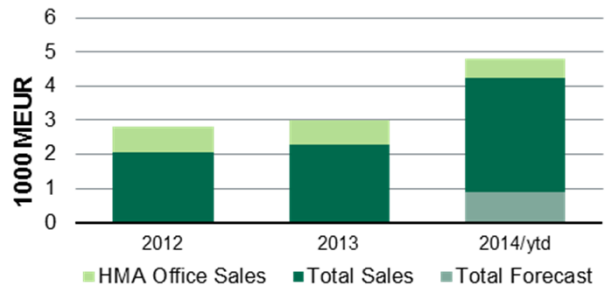
Source: SRV's press release – 5th September 2014

- **Niam acquired the Voimatalo office property in Kamppi in Helsinki**

The property has a lettable area of ca. 9 300 sqm and it sold fully leased. The asset was refurbished in 2008/2009. The vendor was AXA Real Estate on behalf of its vendors. The sale price was not disclosed.

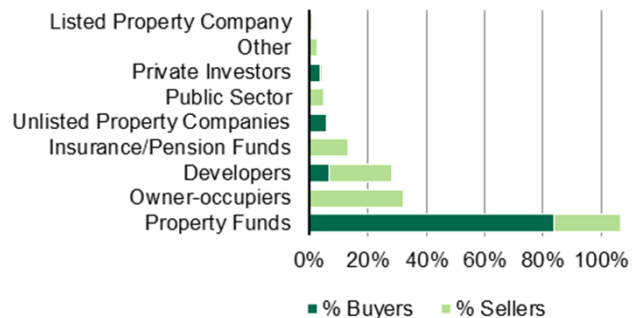
Source: Niam's press release – 2nd September 2014

Chart: Proportion of HMA Office Sales 2012-2014



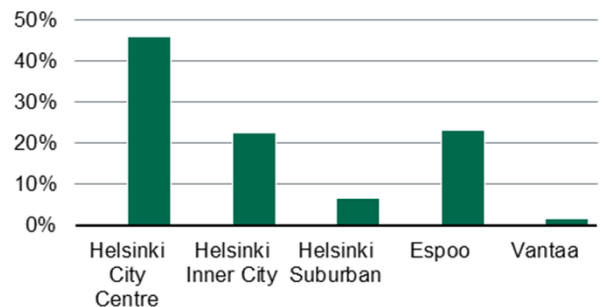
Source: CBRE Research

Chart: Buyer/Seller Profile HMA Offices, 2014 Q1-3



Source: CBRE Research

Chart: HMA Office Sales by Location, 2014 Q1-3



Source: CBRE Research

MAJOR OFFICE TRANSACTIONS Q3 2014

Property	Market	Property type/Sector	Price (€ m)	Buyer
Derby Business Park	Espoo	Business Park	N/A	Niam AB (SWE)
Voimatalo Office Property	Helsinki	City Centre Office	N/A	Niam AB (SWE)
NCC Headquarters	Helsinki	Business Park	N/A	Nordic and Baltic Property Group, NBP (SWE)
Tullihallituksen Talo	Helsinki	CBD Office	26	HGR Property Partners (FIN)
Polaris Vega Business Park	Espoo	Business Park	N/A	AXA Real Estate on behalf of Ceasar Fund (ITA)
Niam's Nordic Investment Fund III Portfolio (Retail & Office)	Various cities in Finland	Office and Retail	Ca. 240	Partners Group (SWI)
Two Office Buildings in Hakaniemi	Helsinki	City Centre Office	11,55	Kansallisasunnot Oy, Kansallis-toimitilat Oy (FIN)
Plaza Presto	Vantaa	Vantaa	N/A	Capman Nordic Real Estate Fund

FORECAST

The Helsinki CBD is expected to hold its strong position in the office market, although rent growth is predicted to slow down and rents to stabilise. In the other areas in the HMA the pressure for rental levels to decrease will continue.

The vacancy rate in the CBD is expected to remain stable in the short term, or could even reduce slightly. The overall vacancy rate in the HMA is predicted to rise.

One of the continuing trends in 2015 is expected to be alterations in the type of use. Due to a significant oversupply of office properties, there are now several development projects on-going in which the premises are being converted to residential or hotel use. This is mainly taking place in the inner city areas.

HELSINKI METROPOLITAN AREA

The Helsinki Metropolitan Area consist of the cities of Helsinki, Espoo, Vantaa and Kauniainen. There are altogether ca. 1.1 million residents within the area. The total office stock is ca. 8.5 million sq m and the major office submarkets are Helsinki CBD, Espoo Keilaniemi, Espoo Leppävaara, Vantaa Aviapolis and Helsinki Ruoholahti. Other submarkets include Vallila, Pitäjänmäki and Herttoniemi.

Helsinki – CBD

The Helsinki CBD is a geographically small area in the surroundings of Aleksanterinkatu. It is the most attractive office and retail location in Finland as well as known for its culturally important buildings. The Helsinki CBD was mainly built in the late 1800s and early 1900s, but it is mainly well maintained and in good condition. The total office stock in CBD is ca. 1.75 million sq m.

Espoo – Keilaniemi / Otaniemi

Keilaniemi is a district in the south-eastern part of Espoo, Finland. The distance to the centre of Helsinki along the Länsiväylä highway is about 8 km. Keilaniemi is bordered by the university district of Otaniemi to the north and the commercial/residential district of Tapiola to the west. The total office stock in Keilaniemi and Otaniemi is ca. 330 000 sq m.

Espoo – Leppävaara

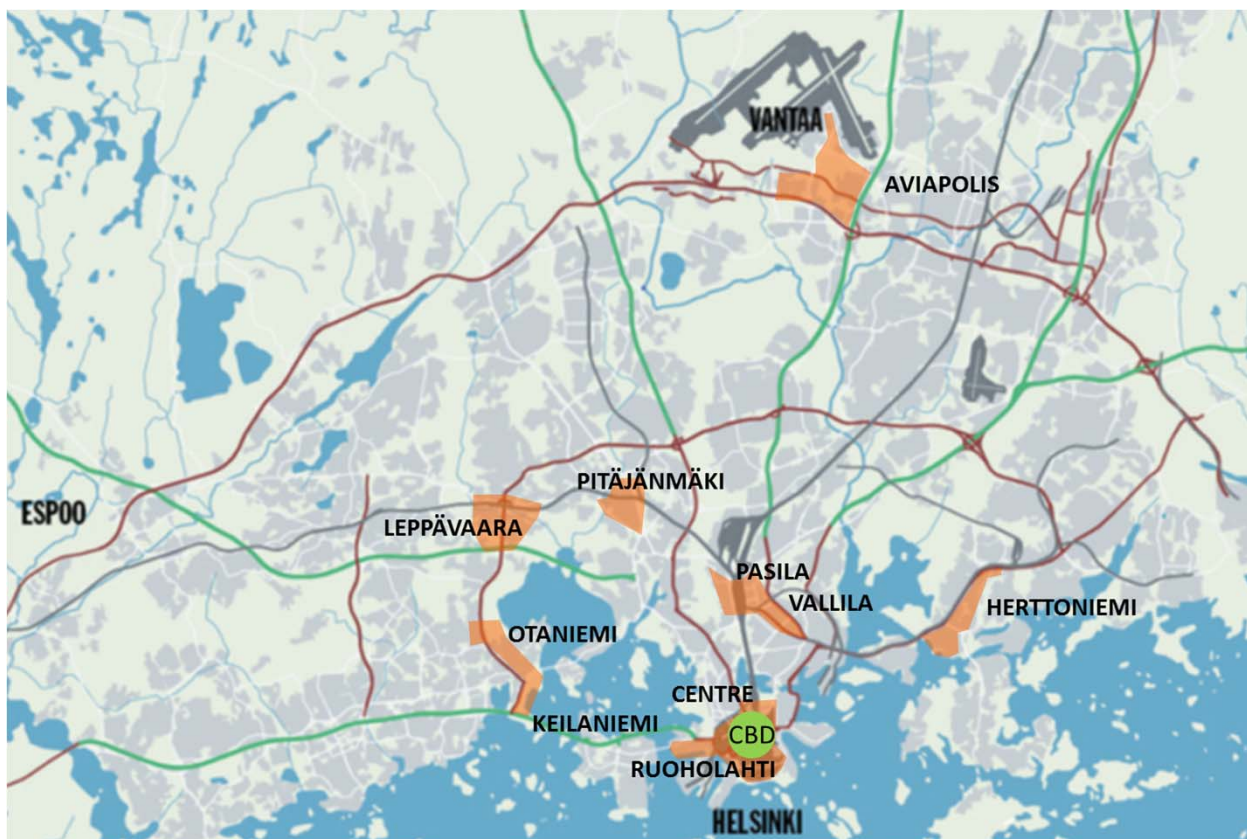
Leppävaara is a district of Espoo. A major traffic hub in the Greater Helsinki region, the Rantarata rail line and Ring Road I, the busiest road in Finland, cross in Leppävaara. Leppävaara has a train station as well. The area includes several business park complexes. The total office stock is ca. 266 000 sq m.

Vantaa – Aviapolis

The Aviapolis area is located around the Helsinki-Vantaa Airport area. This area is under a lot of construction and development, and when the new Ring Train Line and the construction of the planned upgrade of the current turnoffs of the motorways will be completed, the area will be one of the best logistically situated hotspots in the Helsinki Metropolitan area. Commercial property stock in the Aviapolis area includes modern office premises, logistics properties, as well as abundant retail supply, with the significant Jumbo shopping centre. The total office stock ca. 250 000 sq m.

Helsinki – Ruoholahti

Ruoholahti is a prime office area in a good location in close proximity to the Helsinki CBD area and next to the highway to the west. Ruoholahti attracts a variety of office users, such as IT, business consultancy and industrial companies, as well as some banks and insurance companies. The total office stock is ca. 400 000 sq m.



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