

Demand for New Space Remains Low

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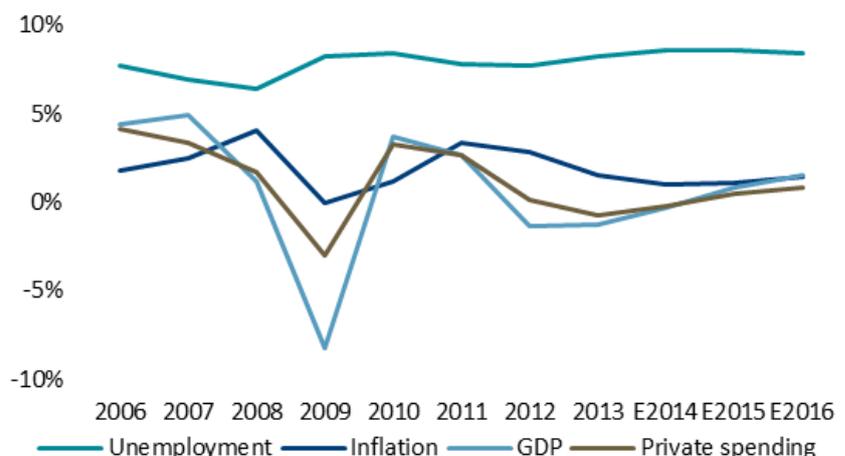
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- The CBD prime rent has been increasing steadily since 2010. In 2014 the CBD prime office rent reached €32.5/sq m/month. In other main office areas the prime rents have remained fairly stable.
- The prime retail rent decreased in 2014 to €132.5/sq m/month.
- The prime industrial rent has been at similar level since 2008 and is now at €9.75/sq m/month.
- The office vacancy in the Helsinki Metropolitan Area is at 1 million sq m. The vacancy has remained stable for the past year due to decreased supply of new office space. The demand for office space is expected to remain fairly low due to the challenging economic situation, and hence the average vacancy rate is seen to remain at the same level in the near future.
- Due to decreased demand outside the Helsinki CBD, retail vacancies in the HMA have been slightly increasing in 2014. However, the high street retail locations have remained attractive.
- The construction of the new logistics centres outside the HMA and the overall economic situation have slightly increased the amount of vacant logistics space in the HMA.
- There is currently some 105,000 sq m of new office space, nearly 90,000 sq m of new retail space (including extensions to existing shopping centres), and some 10,000 sq m of new logistics space under construction.

Figure 1

Main Economic Indicators



Source: DTZ Research

Helsinki Q3 2014

Economic Overview

The GDP is estimated to increase by 0.8% in 2015. The Finnish export sector is estimated to improve during 2015 as a result of global economic growth and a weaker Euro, compared to the dollar.

The Ukraine crisis and the escalated sanctions directed at Russia, have caused uncertainty for the Finnish export sector and weakened the export to Russia. However, the export sector increased during H1 2014 to EU countries.

The economy is stagnating for the third consecutive year. The GDP is expected to decrease by 0.3% in 2014. The GDP decreased by 1.3% in 2013.

In 2015 the private spending is estimated increase modestly by 0.5% as the economic growth is expected to pick up. Private spending is estimated to decrease by 0.2% in 2014, due to modest salary increases, weak employment situation, and slightly higher taxes.

The inflation forecast for 2014 is 1.0%. The inflation rate is expected to increase slightly to 1.1% in 2015. The inflation rate was 2.8% in 2012 and 1.5% in 2013.

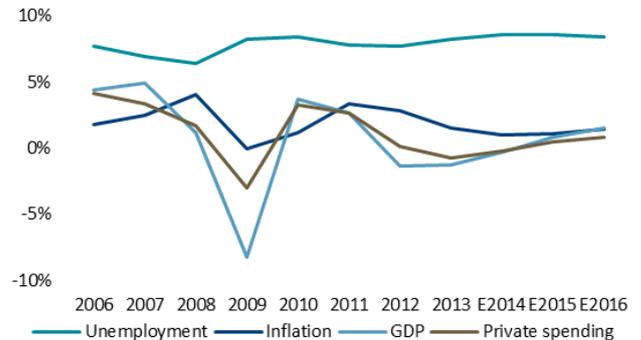
The third consecutive year with a stagnant economy has naturally effect the employment situation. The unemployment rate is estimated to increase to 8.6% in 2014 and to remain at the same level in 2015.

The European central bank is estimated to keep the interest rate at a low level during 2015. There is however a clear demand for increased inflation which might increase interest rates. The Finnish 10-year government bond will probably slightly increase due to a lower credit rating for Finland.

Another indicator of the economy and real estate market – building permits and building starts has shown a steady decline since 2011. Normally the second quarter of the year is the most active, measured in granted permits and building starts. Comparing Q2 2014 to previous years the decrease is noticeable.

Figure 2

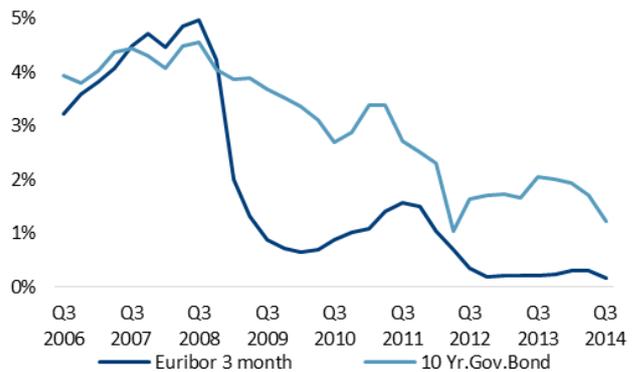
Main Economic Indicators



Source: Bank of Finland, Danske Bank, Nordea, and Handelsbanken

Figure 3

3 Month Euribor and 10 Year Government Bond



Source: Bank of Finland

Figure 4

Building Permits, Started Constructions, and Completed Buildings, All Building Types, Floor Area (sq m)



Source: Statistics Finland

Helsinki Q3 2014

Office Market

Helsinki Metropolitan Area Office Market

The Helsinki Metropolitan Area is the largest office market in Finland with 8.6 million sq m, representing some 45% of the office stock in the country.

There are signs towards increased space efficiency in the office market. The public sector has been working to reduce the used space per employee. However, in the private sector the space efficiency is considered only as one method in addition to rent reductions to obtain savings.

Office Rents

The CBD prime rent has been increasing steadily since 2010. In 2014 the CBD prime office rent reached €32.5/sq m/month. In other main office areas the prime rents have remained fairly stable.

However, significantly higher office rents have been achieved in premises that are highly functional or renovated to tenant specification, in the CBD and in the new Töölölahti office area, located just north of the CBD.

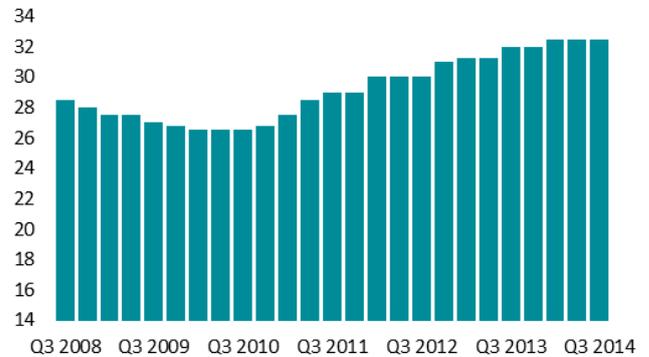
The average rental level in the Helsinki CBD is currently at €27/sq m/month. The average rental levels in the main office areas have been quite stable. The average rents are shown on the map on page 5.

Demand for Office Space

According to the DTZ Property Investor Confidence Index survey, 38% of the participants stated that the office space demand will weaken in Q4 2014. However, most of the participants (62%) stated that the demand for office space will show only little or no change in the upcoming quarter.

Figure 5

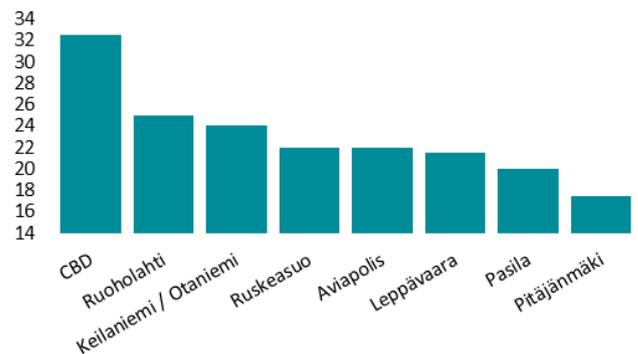
Prime office rent in Helsinki CBD, €/sq m/month



Source: DTZ Research

Figure 6

Prime office rents, €/sq m/month, Q3 2014



Source: DTZ Research

Helsinki Q3 2014

New Supply

From 2007 to 2009, approximately 500,000 sq m of office space was completed in the HMA. High vacancies in the HMA has led to a decreased amount of new developments. In 2012 over 145,000 sq m of office space was completed whereas in 2014 only some 90,000 sq m was completed.

In 2014 Q1-Q3, approximately 50,000 sq m of office space was completed. There is currently 7,500 sq m of office space under construction which will be completed in Q4 2014.

Hence, the overall completions for 2014 will be significantly lower than in the previous years. In total, there are currently some 105,000 sq m of office space under construction in the HMA.

The pipeline of the projects currently under construction is presented on page 10.

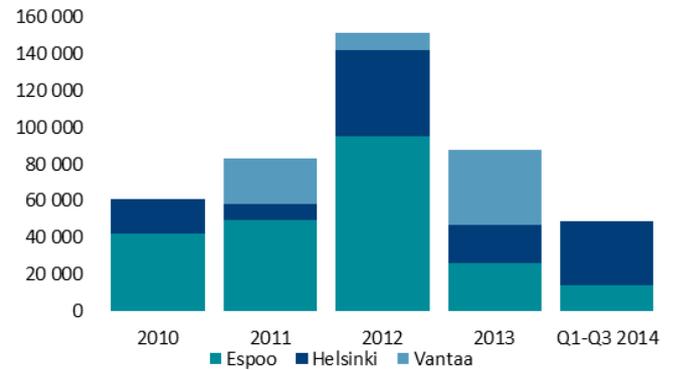
The Overall Vacancy Remains High

The overall vacancy rate in the HMA office market has remained stable for the past year. The average vacancy rate in the HMA is currently at 12%, accounting for over 1 million sq m of vacant space. Even though the overall vacancy rate in the HMA has remained stable, the vacancy rate in the Helsinki CBD is currently at 8.5%, a two percentage point increase from Q3 2013.

The development of new office space has slowed down since the rather high amount in 2012. The decreased supply has influenced the market so that the overall vacancy has remained stable. In order to improve the occupancy levels, the demand for office space has to catch up. Hence, the vacancies are expected to remain stable due to difficulties in the overall economic situation.

Figure 7

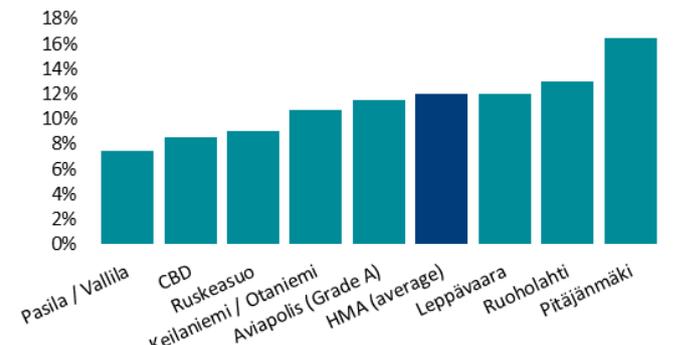
Completed Office Space in 2010 - Q1-Q3 2014, sq m



Source: DTZ Research

Figure 8

Office vacancy, Q3 2014

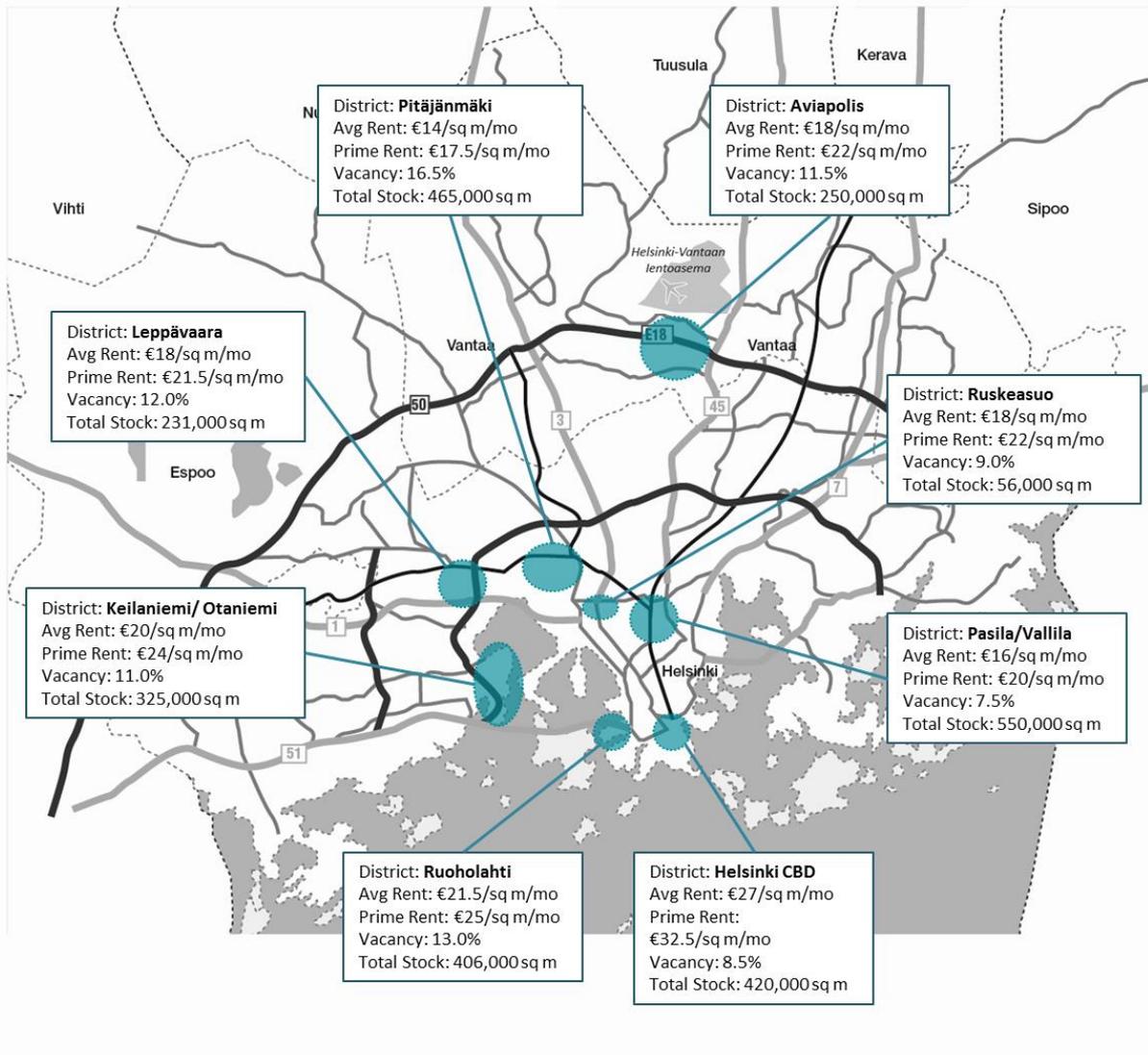


Source: DTZ Research

Helsinki Q3 2014

Map 1

Major Office Locations in the HMA



Source: DTZ Research

Helsinki Q3 2014

Retail Market

New Players in the Market

New international retailers have entered the Finnish market in 2014, for example XXL, Burger King, and Mark & Spencer have already opened their first stores in Finland.

Retailers, such as XXL and Gigantti, which are normally only located in big-box type locations, are opening new stores in the Helsinki CBD.

Prime Retail Rents

The prime retail rent increased steadily from 2010 until 2013. In 2014 the demand for retail space has slightly decreased, which has led to a minor decrease in the prime retail rental level. Prime retail rent is currently at €132.5/sq m/month.

Demand for Retail Space

According to the DTZ Property Investor Confidence Index survey, 50% of the participants stated that the demand for retail space in Q4 2014 will show little or no change. Also, 50% of the participants stated that the retail space demand will weaken in the upcoming quarter.

New Supply

In 2013, some 30,000 sq m of new retail space was completed in the HMA. In addition, redevelopment projects and extensions were performed to existing shopping centres, covering a total area of nearly 75,000 sq m.

In 2014 Q1-Q3, some 14,000 sq m of new retail space was completed. Nearly 90,000 sq m of retail space is currently under construction in the HMA. The largest projects currently under construction are extension and redevelopment of shopping centres Iso Omena and Ainoa, both located in Espoo.

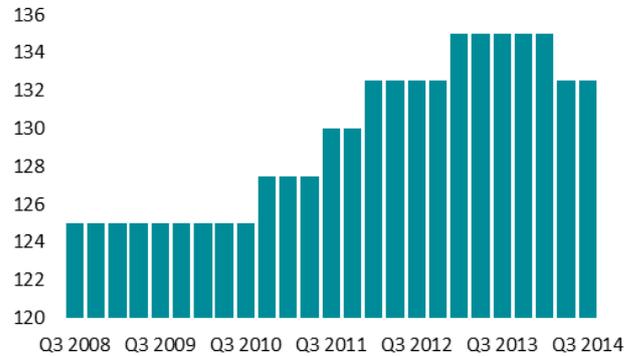
The pipeline of the projects currently under construction is presented on page 10.

Retail Vacancies

The high street retail locations remain attractive. However, due to decreased demand outside the Helsinki CBD, retail vacancies in the HMA have been slightly increasing in 2014. The average vacancy rate is currently at approximately 4-5%. In addition, Kesko will close three Anttila department stores in the near future and one Kodin 1 department store within two years.

Figure 9

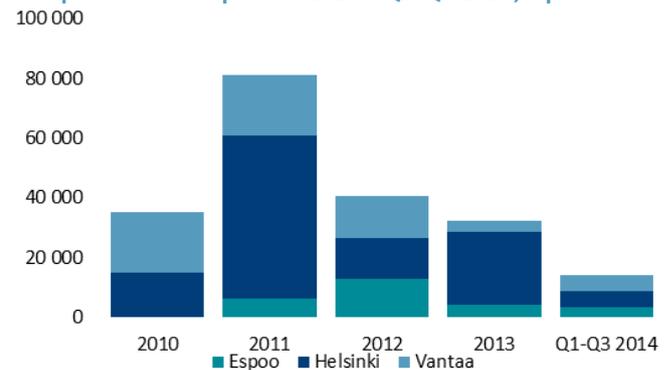
Prime Retail Rent, €/sq m/month



Source: DTZ Research

Figure 10

Completed Retail Space in 2010 - Q1-Q3 2014, sq m

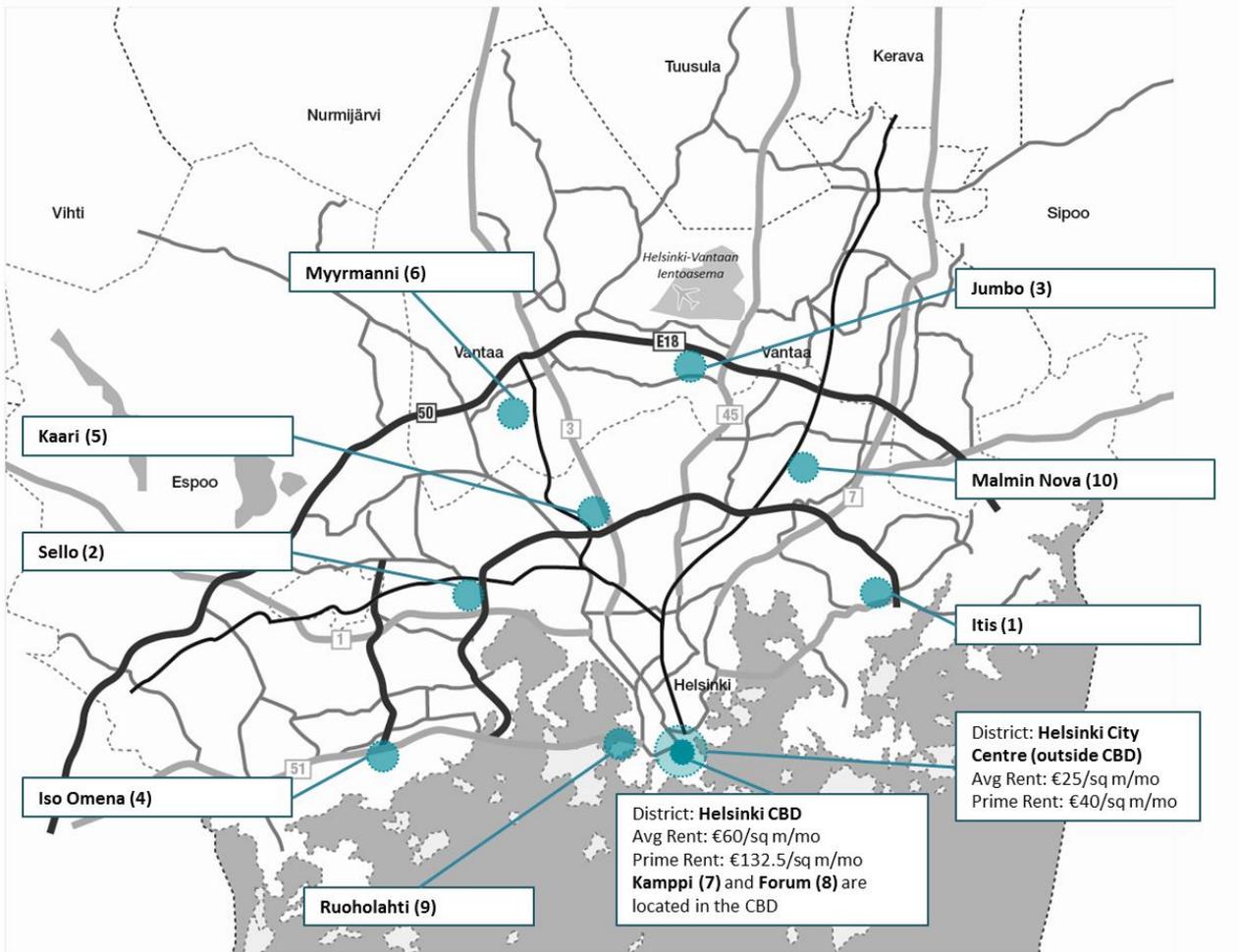


Source: DTZ Research

Helsinki Q3 2014

Map 2

Major Retail Locations and Ten Biggest Shopping Centres (sq m) in the HMA



Source: DTZ Research

Helsinki Q3 2014

Logistics market

Prime Logistics Rent

The prime logistics areas are located in the surroundings of Ring Road III and in the Hakkila district in Vantaa.

The prime logistics rent is at €9.75/sq m/month. The prime rent has remained stable since the end of 2008.

Demand for Industrial Space

According to the DTZ Property Investor Confidence Index survey, 30% of the participants stated that the demand for industrial space will weaken in Q4 2014. However, 22% of the participants believes that the demand will improve in the upcoming quarter. 48% stated that the demand will show only little or no change at all.

New Supply

Only some 10,000 sq m of logistics space was completed in the HMA in 2013. In H1 2014 the amount of completed logistics space was approximately 8,000 sq m, and some 10,000 sq m is currently under construction. However, over 200,000 sq m of gross logistics area is planned to be constructed in the HMA, mostly to the airport area in Vantaa.

The low amount of logistics space under construction in the HMA can be explained by the construction projects just outside the HMA. Currently there is 189,000 sq m of logistic gross space under development in Sipoo. Phase one of the development, which covers a total of 75,000 sq m, is estimated to be completed in 2016. Also there is building right for 200,000 sq m of logistics space in Kerca area in Kerava. One of the main reasons for the switch outside the HMA is the price of the land.

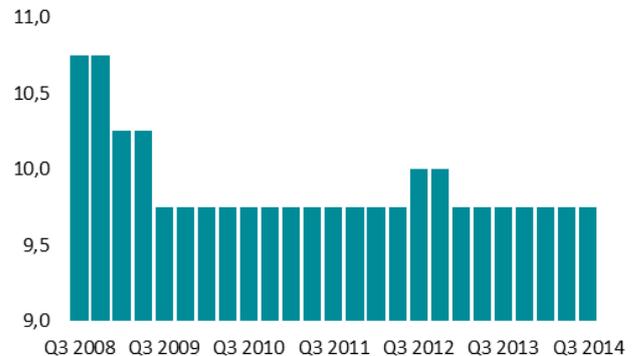
Pipeline of the projects currently under construction is presented on page 10.

Vacancy remains low

Construction of the new logistics centres outside the HMA and the overall economic situation have slightly increased the amount of vacant space in the HMA. The vacancy of warehouse and industrial properties is currently at some 6-7%. DTZ estimates that the amount of vacant space will further increase in the HMA.

Figure 11

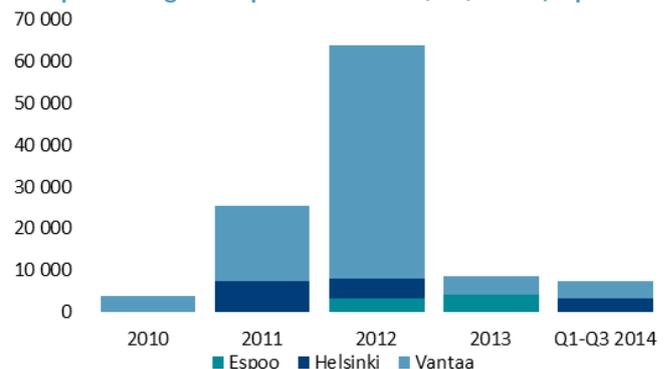
Prime Logistics Rent, €/sq m/month



Source: DTZ Research

Figure 12

Completed Logistics Space in 2010 - Q1-Q3 2014, sq m



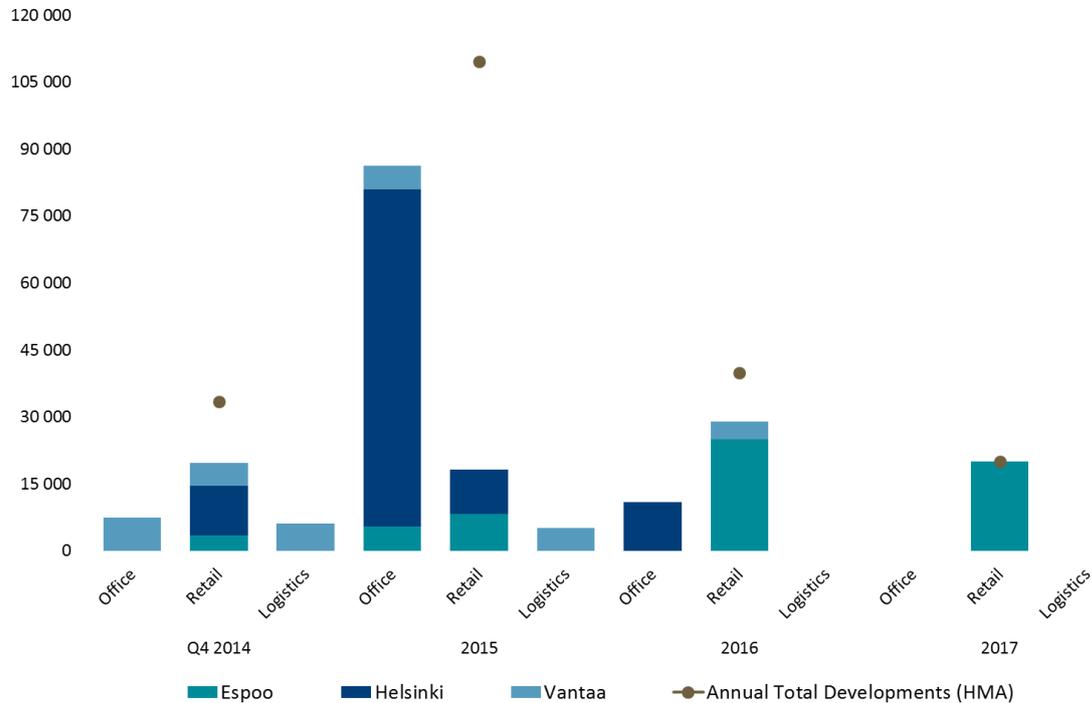
Source: DTZ Research

Helsinki Q3 2014

Major Construction Projects

Figure 13

Pipeline of the Projects under Construction



Source: DTZ Research

Table 1

Major office projects under construction in the HMA

Estimated completion	City	Building	Lettable area (sq m)	Constructor	Investor
Q3 2014	Espoo	Eventes Business Garden	14,133	PEAB Oy	Union Investment Real Estate GmbH
Q4 2014	Vantaa	Dixi	7,500	YIT Rakennus Oy	Etera Mutual Pension Insurance Company
Q2 2015	Helsinki	OP-Pohjola Group's Vallila Campus	Gross area: 60,000	Haahtela Group (constructor consultancy)	OP Pohjola Group
Q4 2015	Helsinki	Premises for the National institute for health and welfare	7,500	Senaatti Properties / NCC Rakennus Oy	n.a.
Q1 2016	Helsinki	Ilmalanrinne, phase 1	18,000	Sponda Plc / Lemminkäinen Talo Oy	Sponda Plc

Source: DTZ Research

Helsinki Q3 2014

Table 2

Major retail projects under construction in the HMA

Estimated completion	City	Building	Lettable area (sq m)	Constructor	Investor
Q4 2014	Vantaa	Shopping Centre Dixi, phase I	5,200	YIT Rakennus Oy	NREP Nordic Strategies Fund
Q4 2014	Helsinki	Shopping Centre It is, extension	11,000	Wereldhave	SRV
Q2 2015	Espoo	Premises for XXL Sports & Outdoor	8,000	YIT Rakennus Oy	Julius Tallberg-Kiinteistöt
Q3 2016	Espoo	Iso Omena Shopping Centre extension	25,000	NCC Rakennus Oy	Citycon, GIC Real Estate
Q4 2016	Vantaa	Shopping Centre Dixi, phase II	3,900	YIT Rakennus Oy	NREP Nordic Strategies Fund
Q2 2017	Espoo	Shopping Centre Ainoa, phase II	20,000	SRV	LähiTapiola

Source: DTZ Research

Table 3

Major logistics projects under construction in the HMA

Estimated completion	City	Building	Lettable area (sq m)	Constructor	Investor
Q4 2014	Vantaa	Logistics center for HUS	6,200	SRV Rakennus Oy	n.a.
2015	Vantaa	NELF Haxlog's logistics centre, phase I	4,500	Rakennusliike Lehto Oy	Genesta Property Nordic Finland Oy

Source: DTZ Research

Definitions

HMA	The Helsinki Metropolitan Area comprises the city of Helsinki and three other cities: Espoo, Kauniainen and Vantaa. Approximately 1.1 million people live in the HMA area.
New supply	Represents the total amount of floor space that has reached practical completion (including major refurbishments) as known on the last day of the quarter, regardless whether the space is occupied or still available on the market. Common areas and service areas are not included.
Prime rent	Represents the attainable average prime rent that is expected for an office unit commensurate with demand in each location, highest quality and specification in the best location in a market at the survey date. The rent is given as a gross rent. The office rent quoted reflects prime units of over 500 sq m.
Prime yield	Represents the initial yield estimated to be achievable for a notional property of highest quality and specification in the best location fully let and immediately income producing in a market at the survey date.
Vacancy	Represents the total floor space in existing properties, which is physically vacant, ready for occupation and being actively marketed as known on the last day of the quarter. The vacancy rate represents the total vacant floor space divided by the total stock at the survey date.

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