STATEMENT

Evaluation of the fair value of Sponda Plc's investment properties on 31 December 2016

CATELLA

SPONDA

EVALUATION OF THE FAIR VALUE OF SPONDA PLC'S INVESTMENT PROPERTIES

Sponda Plc (hereinafter referred to as "Sponda" or "the Company") conducts its own quarterly internal calculation of the fair value of the investment property portfolio of the Company by using a 10-year cash flow model as the valuation method. Catella Property Oy (hereinafter "Catella") audited Sponda's internal property assessment process and calculation methods in autumn 2007 and again in December 2015 and verified that these fulfil IFSR requirements and the commonly approved valuation criteria, and are carried out according to International Valuation Standards (IVS).

Starting from Q4-2012, Sponda adopted the mid-period convention for discounting cash flow instead of the previously used end-of-year method. This change accounts better for the timing of cash flow and corresponds with the prevailing market practice.

On the date of valuation, 31 December 2016, Catella reviewed the property valuations of the investment properties located in Finland that had been carried out internally by Sponda. The valuations have been prepared on the basis of ***Fair Value*** for financial reporting, which is defined in IVS 300, par. G1 based on IFRS 13 as follows: "*Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*" IVS 300 par. G2 states that ***Fair Value*** under IFRSs is generally consistent with ***Market Value***.

Catella inspected the data regarding assumptions about market rents and occupancy rates and enquired into the net yield requirements and their effect on the fair value of the properties. In addition to the cash flow method, Catella has used the sales comparison approach as a verifying method when analysing the fair value of the properties.

Development properties, trading properties and properties located in Russia are excluded from Catella's inspection, nor has Catella inspected the value of the unused building right related to some of the properties in the portfolio.

In a few properties, a cursory inspection was carried out in December 2011, but for most properties Catella has not carried out any inspections during this valuation period nor on any earlier occasions. We have relied on the data of rentable areas, tenancy schedules and operating expenses as provided to us by Sponda in table format; the actual lease agreements have not been inspected.

Catella has reviewed the internal valuation of Sponda's investment property portfolio in accordance with the requirements of the RICS Valuation Standards (January 2014) and the International Valuation Standards (IVS 2013). The review of Sponda's internal property valuations and this statement has been conducted for a financial statement for Sponda Plc and it may not be used for any other purpose without the prior written consent of Catella Property Oy. We confirm that Catella's valuers have conducted the review of Sponda's internal property valuations as independent, external and authorised property valuers approved by the Central Chamber of Commerce. We are not aware of any conflicts of interest arising in the execution of this assignment.

A GENERAL ASSESSMENT OF THE ECONOMY

Sources:
- Statistics Finland
- Eurostat
- European Central Bank
- Ministry of Finance Economics Department, Economic Survey, Winter 2016
- Danske Bank, Economic trends and finance market, December 2016

As an overview of the economic climate, it can be stated that anxiety about recession, which were topical in the beginning of 2016, have faded away as a consequence of the stabilised oil price and moderately improved economic climate in China. Investors were nervous because of Brexit in last summer and the US presidential election in the late autumn, but the economic impacts of these events remained slighter than feared, at least in the short run. At the end of the year, expectations of future economic development were cautiously positive in several markets – including in Finland.

In emerging Asia, the mid-term outlook for economic growth is still uncertain. The Chinese economy seems to be stabilising to a level that is lower than in previous years. China is one of the most significant players in the global economy and therefore its economic development has a wide effect on the situation of other emerging economies in Asia and in the Western countries as well. Economic growth in India was faster than in China last year and, in spite of the slight deceleration, the growth has also remained at a good speed during 2016. In Japan, the GDP grew moderately between January and September of 2016. In beginning of the year, the Japanese export sector was still suffering from the strengthening yen quotation, but at the end of the year, the situation eased and expectations in the industrial sector have risen higher.

In the United States, the economic climate has been developing favourably for a longer time already since the financial crisis and the GDP is already more than ten percent higher than before the crisis. After the weak beginning of the year, the economic growth perked up again in the third quarter due to increasing exports, and the latest statistics bear out the understanding of continuous growth at the end of the year. Private consumption has managed to sustain itself throughout the whole year. In the second quarter of the year, annualised economic growth was only 1.2 percent, which was the slowest growth rate since 2013. However, in the third quarter, the growth accelerated to 3.2 percent.

The outlook for US economic growth is rather favourable, although economic upturn has continued already for quite a long time. Salaries have taken an upward turn, which supports households, but on the other hand, it strains the profit development of companies. The situation in the labour market has further improved and the unemployment rate is below 5 percent, which is considered an equilibrium level (4.6 per cent in November). Indicators reflecting economic outlook of the companies show that expectations for future development are positive.

Due to the improved economic climate, the Federal Reserve (FED) increased its target funds rate first time by 25 basis points, from 0–0.25 per cent to 0.25–0.50 per cent in December 2015. The second same-size interest rate hike happened in December 2016; the rate level is now 0.50–0.75 per cent. Prior to these hikes, the FED had increased the interest rate in 2006. More increases in interest rates are awaited in the market. In December, the FED itself anticipated that it has to increase its target funds rate level threefold in 2017, but changes in the FED’s management indicate a return to a more cautious policy.

In the euro zone, the UK’s decision to withdraw from the EU dominated the economic news last summer. After the nervous initial reactions, it seems that the negative effects will remain more composed than feared, but concrete consequences cannot be seen until more time has passed.

After the financial crisis, the economic development in the euro zone was clearly weaker than in the United States for several years. The same GDP level that prevailed before the crisis was not reached in the euro zone until last year, while in the US it was reached in the third year after the crisis. The economic development in the euro zone has already been favourable for three years, but the growth rate has been weaker than desired. In the third quarter, economic growth in the euro zone was 1.7 per cent compared to the same quarter last year. The latest statistics concerning the euro zone economy indicate that the situation has remained stable.

The Finnish GDP increased by only 0.2 percent in 2015 based on the revised figures of Statistics Finland. However, during 2016, there have been signs of strengthening economic growth in Finland and according to the latest statistics, the GDP growth in the third quarter was 1.6 percent compared to the same period in the previous year. At this rate, Finland’s economic growth is approaching the average level (1.7 per cent) of the euro zone. However, in spite of the growth, the Finnish GDP was still approximately 5 percent lower than before the financial crisis of 2008.

The strength of private consumption was a surprise in 2015, and in 2016, it has continued to be even stronger than expected. Low interest rates, moderate inflation and an improved employment situation have supported consumers’ economy. The future growth outlook is weaker, because increasing inflation is crushing purchasing power. However, low interest rates will continue to support indebted consumers in the future as well. Investments have also perked up, but these are focused on mainly construction. More wide-ranging growth of investments has not yet been seen.

In addition to private consumption and construction, sustainable economic growth would require an increase in exports and investments in research and development, as well as in production. Traditional export-driven recovery has not been seen for the time being. In the future, the outlook is slightly brighter assuming that the global economy will continue to grow, cost competitiveness will improve and the Russian economy will recover. As a whole, the preconditions are in place for more favourable development of the Finnish economy, and the perking up of the economy seems to be feasible. The focus of the growth will move from consumer-driven to investment- and export-driven growth. However, there is a risk that the global economic cycle will weaken before Finnish export industry is able to bounce back.

Low interest rates, moderate inflation and an improved labour market situation are supporting private consumption. The growth of consumption has been rather wide-ranging, but especially car trade has been lively. Consumers’ optimism can also be seen in confidence figures: Finnish consumers’ confidence is clearly at a highest level in the EU, and in the Nordic countries, consumer confidence is typically higher than in Southern European countries, for instance.

Finnish consumer confidence improved further towards the end of the year. In December 2015, the confidence indicator was at a level of +2.4, the figure in June was +14.9, and in December 2016 it was +19.5. The last time consumers’ confidence was this strong was in February 2011. The long-term average figure of indicator is +11.7.

The unemployment rate reached the peak of this cycle at 9.5 per cent in the summer, but it has decreased since then. In November 2016, the unemployment rate was 8.1 per cent. According to Statistics Finland, the number of unemployed people in November 2016 was 213,000, which was as many as one year ago.

The outlooks of domestic forecasters regarding the development of the Finnish economy are consistent in the sense that the bottom of the cycle has been reached in 2015 and fragile economic growth can be expected during 2017 and 2018. Inflation is expected to rise to over one percent in 2017 and 2018 and to increase to slightly over one percent in 2017, which indicates that index-linked rents will also grow moderately in the coming few years. In 2016, the cost-of-living index increased by 1.2 per cent by the end of November.

The forecasts given in December 2016 are presented in the following table.

FORECASTER - December 2016	**GDP 2017 => 2018**	**EXPORTS 2017 => 2018**	**INFLATION 2017 => 2018**	**UNEMPLOYMENT RATE 2017 => 2018**
Danske Bank	+ 1.3% => + 1.3%	+3.0% => +3.5%	+1.3% => +1.5%	8.3% => 8.0%
Nordea Bank	+1.0% => + 0.8%	+1.2% => +2.0%	+1.1% => + 1.0%	8.6% => 8.4%
LähiTapiola-Group	+ 1.1% => + 1.2%	+3.5% => +3.2%	+1.2% => +1.3%	8.5% => 8.3%
Bank of Finland	+ 1.3% => + 1.2%	+2.1% => +2.5%	+0.8% => +0.8%	8.5% => 8.3%
Ministry of Finance	+ 0.9% => + 1.0%	+2.4% => +3.2%	+1.3% => +1.3%	8.5% => 8.1%

The general economic climate has affected the Finnish commercial property market in two different ways. The letting market in particular has suffered from the weak economic climate, but if a property is fully leased with long-term lease agreements and its other features fulfil investors' requirements, these kinds of prime properties have been desirable investment objects in the investment market.

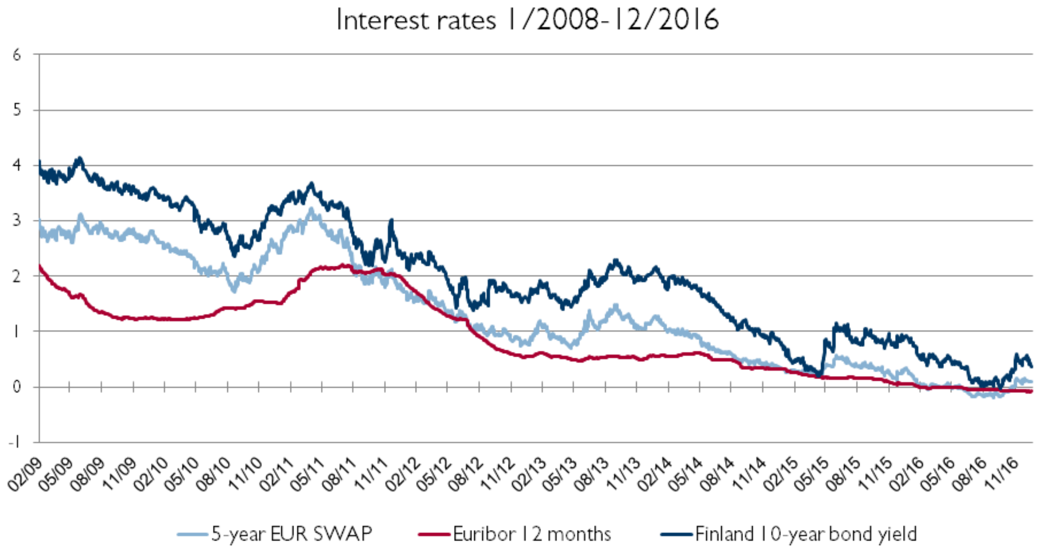
In the Helsinki Metropolitan Area's office letting market, the effects of a weak economical situation can still be seen in the form of high vacancy rates. In 2015, only two new office projects were launched. An upward trend in office construction was seen in the beginning of 2016, with ten new projects having been started since then. In December, approximately 80,000 m^2 of new office space was under construction in the HMA. Completion of the ongoing office construction projects together with the weak economical situation will keep the vacancy rate high in the near future as well. Construction of retail premises in the HMA is also at a high level; in December, approximately 255,000 m^2 of new retail space was under construction, with the most noteworthy projects being the Tripla shopping centre in the Pasila district and the Redi shopping centre in the Kalasatama district. The Finnish commercial property market is very active if measured by the recent transaction volume, although the fundamental aspects of the economy have remained weak.

INTEREST LEVEL AND FINANCIAL MARKET

The European Central Bank (ECB) continues to resuscitate the economy. At its meeting in March 2016, the ECB decreased the steering rate to zero from the previous 0.05 per cent, which had been the level since the last decrease decision made in September 2014. Further, the deposit rate was decreased to -0.4 per cent from the previous -0.3 per cent. Nowadays, banks must pay the central bank if they want to make deposits. With the deposits subject to a charge, the ECB hopes that this will encourage banks to increase credit granting to firms, which could spur economic growth and inflation. Interest rates are expected to remain at a low level for a rather long time. In addition to the decrease in interest rates, the ECB initiated a wide-ranging bond purchase program in March 2015 and this program was originally supposed to be continued until March 2017. At its meeting in December 2016, the ECD announced that the purchase program would continue also after this date, but the amount of purchase will decrease from €80 billion to €60 billion per month. Even if the monthly amount will decrease, the resuscitation is still exceptional. The ECB has also widened the range of bonds that will be qualified under the program, so that good-quality corporate bonds will also be accepted.

The development of market interest rates has followed the decline of the steering rate. At the end of 2011, the 12-month Euribor was still at a level of 1.95 per cent (and a steering rate of 1.0 per cent). From the first half of 2013, the 12-month Euribor remained above the 0.50 per cent level until June 2014, but as a consequence of the reductions to the steering rate, the 12-month Euribor has now decreased below zero.

The chart below illustrates the development of the (12-month) Euribor between 2008 and 12/2016, the Finnish Government Bond (10 years) and the EUR SWAP (5 years).



Source: European Money Markets Institute, Erste Group Capital Markets & Bank of Finland

Loans given for real estate investments are often tied to the 5-year SWAP interest rate, which has taken a slight upward turn during the last few months and reached a positive level of +0.09 per cent in the end of December, even though the 12-month Euribor is still below zero.

According to the **Finnish CREDI survey conducted by Catella in June 2016**, the trend of lightening property financing, ongoing for nearly four years, has ended. The respondents of Catella's CREDI survey estimate that real estate funding from banks has become tighter over the past six months. They also believe that funding will become moderately tighter in the next six months. According to the survey, the availability of funding has been impaired and margins have risen slightly. This trend is also forecast to continue during the next six months. Instead, there was no visible change in leverages and maturities.

Catella is currently carrying out a new CREDI survey, but the results of that survey are not yet available.

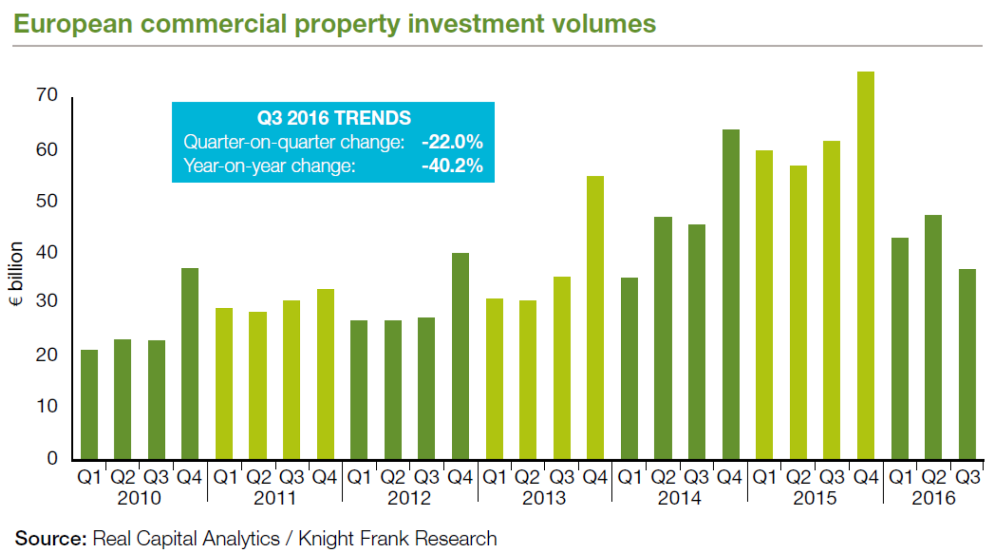
In Sweden, Catella conducted a similar CREDI survey in December 2016, and the results show that the Main index increased 1.9 points compared to the September figure, and was now 44.4. In the Swedish survey, the index point 50 means that the situation has remained unchanged and figures over 50 indicate lightened availability of financing. However, both property investors and banks view the market more positively than they did in the four previous surveys and, in particular, they believe that in the near future the situation will develop in a positive direction. Increased SWAP interest rates and credit margins, as well as tightened availability of funding, are the main reason the CREDI Main index is still below the 50 turning point. The respondents believe that the credit margins will further increase in the near future. On the other hand, the Duration sub-index is above the 50 turning point and the Leverage sub-index is just slightly below the 50 turning point.

PROPERTY MARKET

European Property Market Climate

Source: Knight Frank

According to Knight Frank, the European commercial property market's investment volume in 2015 was approximately €238.5 billion, showing an increase of 25 per cent compared to the previous year. However, in the beginning of 2016, investment volume experienced a downward turn. For the first three quarters of 2016, investment volume reached €128 billion, which is 28.7 per cent less than in the same period in 2015. Year-on-year the decrease was even higher (40.2 per cent).

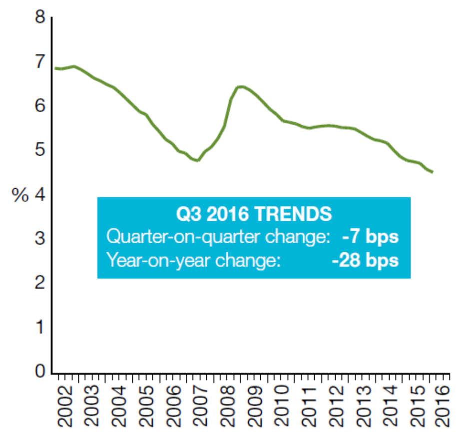


The fall in investment volumes has been largely a result of decreased activity in Europe's three biggest markets, the UK, Germany and France. The decline in UK volumes can be attributed to investors' uncertainties over the impact of Brexit, but the falls in German and French volumes are indicative of wider investor caution and the increased difficulty of sourcing attractive stock in core markets. Excluding the "big three" markets, investment volumes in the first three quarters were down by a more modest 11.3 per cent in the rest of Europe. Pockets of investment growth could be seen in countries such as Finland, Poland and Spain.

However, Knight Frank believes that full-year investment volume for 2016 will increase significantly compared to the figures at the end of Q3, because according to preliminary information, several large portfolio deals are in the pipeline and should be concluded in the last quarter. Nonetheless, the high-water mark set in 2015 will not be reached. According to Knight Frank, lower investment volumes in 2016 should not, however, necessarily be seen as the start of a longer downturn in volumes. Sentiment towards the property investment sector remains broadly positive, and a recent Knight Frank survey found that 68 per cent of polled investors expect European investment demand to either stabilise or increase in 2017.

Despite the lower total transaction volume in Europe, prime yields were still under downward pressure during the third quarter in many European sub-markets. As result, the Knight Frank Weighted Average Prime Office Yield declined by a further 7 basis points compared to the previous quarter and 28 basis points compared to the same period a year ago, standing now at a record low level of 4.55%. In Paris, prime office yields came down by 25 basis points to a new record low level of 3.00 per cent. Sub-4 per cent yields in core European markets remain attractive to many investors in the current low interest rate environment.

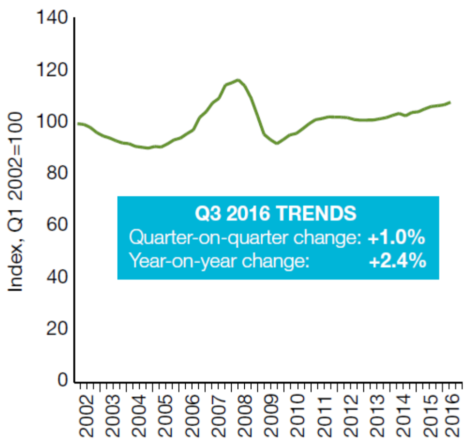
European weighted average prime office yield



Source: Knight Frank Research

In European CBDs, the third quarter proved to be a strong one for office rental growth, reflecting both the robust occupier demand and diminishing supply levels. Knight Frank's prime office rental index increased by 1.0 per cent compared to the previous quarter and by 2.4 per cent compared to the same period a year ago. The rise was driven by quarterly increases in markets such as Berlin (+7.7 per cent), Stockholm (+7.3 per cent), Dublin (+4.3 per cent) and Paris (+1.3 per cent). Conversely, prime rents decreased by 4.3 per cent in London (West End). However, the rental index is still below the last peak (2007).

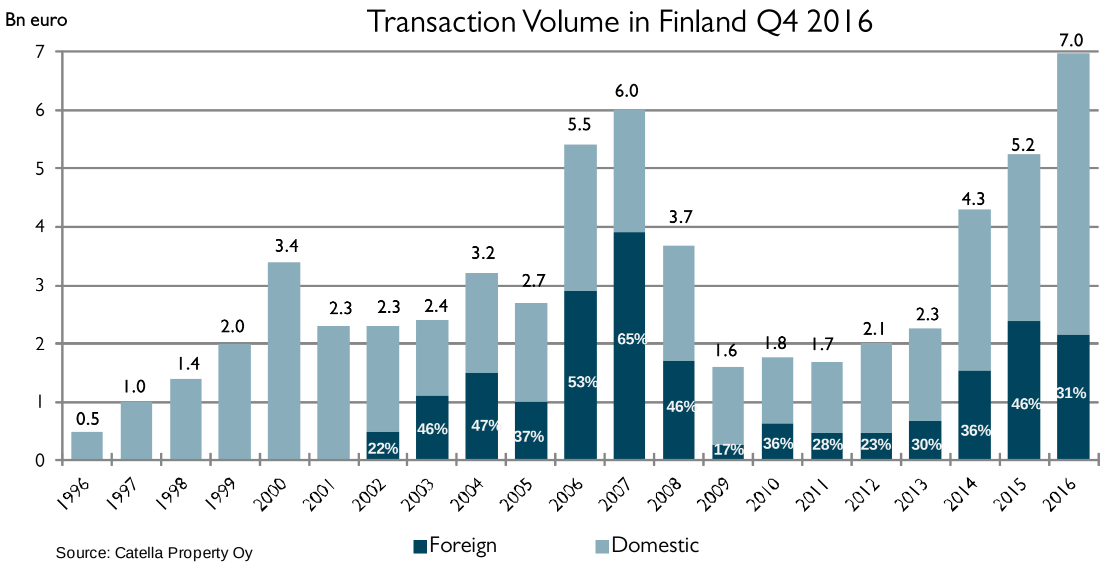
European prime office rental index



Source: Knight Frank Research

The Finnish investment market

After the financial crisis of 2009–2013, the transaction volume of the commercial property market in Finland fluctuated between €1.6 and 2.3 billion. Transaction volume adopted a cautious upbeat trend in 2011, and in 2013, it reached the same level as in the first years of the 2000s. Activity in trade rose to a new level in 2014. Transaction volume picked up further in 2015 and the full-year volume was €5.2 billion. In 2016, the transaction volume reached a new record level, which is €7.0 billion based on preliminary information. The portion of residential portfolio transactions was approximately 38 per cent of the total volume. The strong increase in transaction volume can be explained by active trade in the housing investment market and the increase in other large, over €100-million, portfolio transactions.



Foreign investors are once again interested in the Finnish property market after a quiet period in 2009–2013. The share of foreign buyers in the transaction volume was 46 percent in 2015 and 31 percent in 2016. If counted in euro, acquisitions made by foreign investors reached almost the same level as in the previous year, but percentage share remained lower. In the previous peak year, 2007, foreign investors made acquisitions worth almost €4 billion in the Finnish property market, but this level was not reached this time. The reason for this is that residential portfolio transactions represented a large portion of the total investment volume and foreign investors have not been able to enter this sub-market. At the same time, domestic investors have also been closing deals actively.

Several new foreign investors have entered the Finnish property market during 2014–2016, because it is possible to get a higher yield for property investments in Finland than e.g. in Germany, France and Sweden. There would be even more new foreign investors willing to make acquisitions if suitable objects could be found. Foreign investors are interested in large single properties and portfolios, which have a good rental situation and low technical risks. Until recently, cross-border investors have been focusing their interest mainly on the Helsinki Metropolitan Area, but due to a meager supply, their focus has also widened to the growth centres.

The strong development of the transaction volume indicates that the Finnish commercial property market is following the international trend, although the fundamental aspects of the economy are different from in many other European countries. The Finnish gross domestic product is increasing only faintly, the vacancy rates of office properties in particular are at a record-high level and the development of rent levels is weak. Despite all of this, investors' interest in properties is strong and the yield requirements of prime properties have further decreased during the autumn. The reason for this is that there is a lot of equity on the market searching for investment opportunities and due to the low interest rate level, loan financing is affordable. Properties are considered an attractive asset class, because the bond and fixed-income market offers historically low returns and the risks in the stock market have increased. However, the risks related to property investments are scanned very carefully.

There are different types of investors on the market. Core investors are interested in properties that are new or newish, rented with long leases and have low technical risks. Another factor in core investors' interest is a prime location in the city centre or another location that has a stable occupier demand, even if the maturity of the asset's rental agreements is not especially long at the time of purchase. During the past year, opportunistic investors have also bought properties located outside the prime locations and/or properties with a weak rental situation. As a result, the price range of office property transactions executed lately in the Helsinki Metropolitan Area has been very wide. At their highest, the unit prices have been over € 8,000 per m^2 in some transactions made by core investors in the Helsinki City centre's CBD area or in the Töölönlahti district, while opportunistic investors have bought office properties located in the Helsinki Metropolitan Area with a price level of around € 1,000 per m^2.

Residential portfolios were the largest asset category when viewing the distribution of the transaction volume in 2016. The transaction volume of residential portfolios was €2.64 billion, which represents as much as 38 per cent of the total volume. The buyers were mainly domestic property funds and insurance companies. Only one foreign buyer, Germany's largest pension scheme group Bayerische Versorgungskammer (BVK), has invested in apartments in Finland. BVK bought 356 rental apartments located in the HMA from LähiTapiola's fund for €80 million.

Office properties climbed to the second largest asset category. The transaction volume of office properties was €1.62 billion and the share of properties located in the HMA was €1.36 billion (84 per cent).

Retail properties reached a transaction volume of €1.5 billion and the share of the properties located in the HMA was €744 million (49.6 per cent). The distribution of retail property transactions between the HMA and the rest of Finland was more balanced than in office premises. Investors' interest in retail properties is often driven by grocery store tenants.

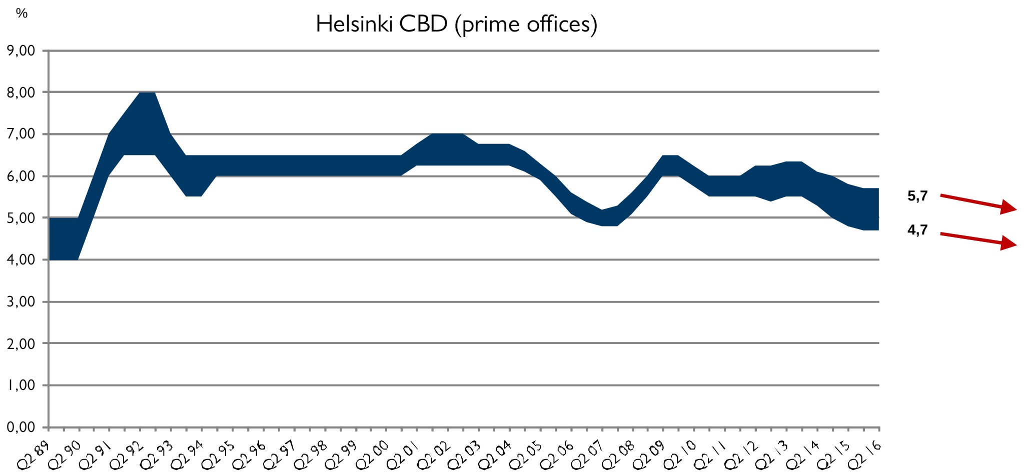
Typical for the structure of the property trade was that approximately 65 per cent of the total volume consisted of portfolio transactions and only 35 per cent consisted of single-property transactions. In 2015, portfolio transactions comprised 58 per cent of the total volume.

During the past year, several residential portfolio deals were executed that were valued at more than €100 million. The major (over €100-million) **commercial property** transactions in 2016 were:

- The so-called ‘Forum block’, which was bought by Sponda (€576 million).
- The Partners Group acquired a portfolio of 37 properties from Sveafastigheter. Some of these properties are located in Sweden (the estimated share of Finnish properties was approximately €180 million).
- Niam funds acquired a portfolio of six office properties located in the HMA from the pension fund Elo (€160 million).
- The Finnish real estate investment manager Sirius Capital Partners acquired a portfolio of 20 retail assets located in Finland from private investors. The assets are anchored by strong tenants, the largest ones being Tokmanni, S-Group and Kesko (€115 million).
- eQ Health Care Properties acquired a portfolio of 27 properties from the Healthcare fund managed by Northern Horizon Capital (€155 million).
- Mutual Pension Fund Varma sold a portfolio of 15 offices to European Property Investors Special Opportunities 4 (EPISO 4), an opportunistic fund advised by pan-European real estate investment manager Tristan Capital Partners. The total rentable area of the portfolio is approximately 124,000 m^2, and the properties are located mainly in the wider Helsinki area (€130 million).
- A noteworthy large single-property transaction is an office property called Merikortteli, which is located in Helsinki’s Punavuori district. The seller was CBRE Global Investors and the buyer was Antilooppi. The building was originally built in 1920, but there have been several renovations after that. The rentable area is approximately 27,700 m^2 and the building has been let to several tenants.

Catella’s opinion on the yield requirement regarding the Helsinki CBD prime office properties in June 2016 was in the range of 4.7–5.7 %. In cases where the property is rented with long leases, the yield requirements were 0.1–0.5 percentage units lower than mentioned above. Due to the scarcity of prime investment opportunities and the strong demand for them, the yield requirements decreased in the second half of the year. Catella’s opinion on the development of yield levels is based on closed deals, observations of quotes and discussions with investors.

The following chart describes the development of the yields of prime-office properties in the Helsinki CBD **until Q2-2016** and the arrows show the development direction in the second half of 2016.



* Long agreements will decline yield levels by 0,1 – 0,5 %-units.
* New construction projects are excluded

Source: Catella Property Oy

Due to the difficulties in retail trade, the yield requirement of Helsinki CBD prime retail properties is slightly higher than the prime office yield. Catella's opinion on the yield requirement regarding the Helsinki CBD prime retail properties in last June was 0.2 percentage units higher than in office premises. In the second half of 2016, the yield gap between Helsinki CBD retail and office premises has remained unchanged meaning that retail yields are still slightly higher than office yields.

Investors are similarly interested in modern logistics properties as well as other property types, provided that the premises are rented with long lease agreements. Due to strong demand, the decline in yield requirements concerns logistics properties as well and prime logistics yields have decreased to a level of 6.75 % and even lower, if the property has a long lease agreement. The yield requirements of older industrial and warehouse properties are clearly at a higher level and the investment interest towards them is rather weak.

Letting Market

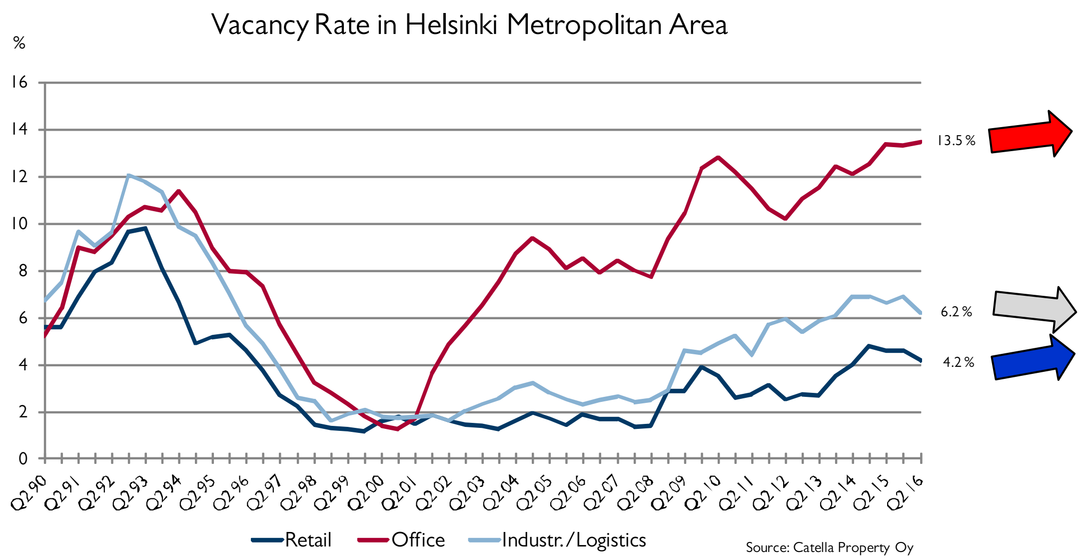
The Finnish property market deviates most from the rest of Europe when it comes to the letting market. Elsewhere in Europe, rents are increasing and the vacancy rate is decreasing, while in Finland the development is more or less the opposite. In Finland, the property investment market is at a completely different phase of the cycle than the rental market: the driver of the investment market is the global capital market, while the rental market is driven by the national economy.

The office letting market in the Helsinki Metropolitan Area is still challenging, and in a difficult economic climate, the fight for tenants is tough. Landlords are willing to provide several rent-free months or stepped rent increases, which means that the starting rent can be quite low. Additionally, it is typical in this type of market climate that the landlord takes care of the costs of alteration works made at the tenant's request, while in a better economic climate, these costs would be paid for by the tenant. Due to the aforementioned factors, the effective rent is often lower than the nominal rent shown in the rent rolls. Especially in the office districts outside the Helsinki CBD, the development of rents has been weak, because of the difficult economic climate and excess supply.

As mentioned earlier, the unit price range of office premises is wide in the HMA, and the same goes for office rents as well. Tenants' requirements regarding the quality of premises have increased, particularly in the CBD area, and tenants are willing to a pay fairly high rent for modern, high-quality premises that are in good condition. As there is also plenty of older office space of modest quality in the CBD area, the office market has been polarised toward good and poor premises, which also means that the rent level range is wide and more affordable rent level office premises can be found in rather good locations.

The cumulative annual change in the value of the retail trade during January–November 2016 was +0.9 per cent. The corresponding increase for the amount of retail trade was 2.0 per cent. The value of grocery store sales increased in the same period by 0.4 per cent and the amount of sales increased by 1.1 per cent. The value of sales increased less than the amount of sales due to the decreasing prices. In recent years, the letting market for retail space has suffered from diminishing sales, which caused pressure for decreasing rents. The latest news regarding the sales figures taking an upward turn will ease downward pressure on the rents with a delay, assuming that the growth of sales continues. However, signs of difficulties in the retail trade sector include the bankruptcy of warehouse chain Anttila in summer 2016 and the latest news indicating that warehouse chain Hong Kong will apply for a debt-restructuring program and that clothing chain Seppälä is closing 14 stores. The Helsinki CBD retail market is normally quite resilient to recession and the retail vacancy rate in the CBD area is still rather low, but vacant retail premises can be found in good locations. The importance of the micro-location has been further emphasised. The retail premises in the best locations are almost fully rented, but the rentability of the premises located slightly apart from pedestrian streams is more challenging.

The following chart describes the vacancy rates of different types of premises in the HMA based on Catella's survey at the **end of June 2016**. Catella is just now collecting data in order to update these figures for the vacancy situation through the end of December 2016 and the arrows on the right side of the chart show the predicted direction of the vacancy rate development.



In the Helsinki Metropolitan Area, the office vacancy rate started to increase in the second half of 2012. The increase in vacant office space was approximately 295,000 m^2 by the end of June 2016. The amount of vacant retail space has also increased by 61,000 m^2 since summer 2012. The vacancy rate of retail premises was 4.2 per cent in June 2016. The vacancy rate of industrial and warehouse premises has been quite stable: the amount of vacant space has increased since summer 2012 by 25,000 m^2 to reach a level of 6.2 per cent in June 2016.

Based on Catella's preliminary information, the vacancy rate of office and retail premises slightly increased, while the vacancy rate of industrial and warehouse premises slightly decreased in the second half of 2016.

RESULTS OF THE VALUATION

The date of valuation for Sponda's investment properties is 31 December 2016. Hereafter the key figures of this valuation date have been compared to the key figures of the valuation made on 30 June 2016, because Catella did not give a statement on Sponda's internal calculation of the fair value on 30 September 2016.

The weighted average net yield requirement in the cash flow calculations was 5.80 % (30 June 2016: 5.88 %) for the entire investment property portfolio. The initial yield for the investment property portfolio inspected by Catella was 5.65 % (30 June 2016: 5.74 %). The economic occupancy rate of Sponda's entire Finnish property portfolio was approximately 89.8 % (30 June 2016: approximately 89.5 %). Starting from summer 2010, Sponda has calculated the economic occupancy rate according to the instructions of the European Public Real Estate Association (EPRA), which means that, *inter alia*, signed lease agreements starting in the near future are taken into account when calculating the occupancy rate. Vacant properties that are considered to be under development are not taken into account when calculating the occupancy rate.

Changes in the Portfolio Structure in 2014

Since the beginning of 2014, Sponda has modified the portfolio structure so that in certain properties located in the city centre of Helsinki and Tampere, the retail premises are now part of the shopping centre portfolio and the office premises are part of the office portfolio, while previously the whole property belonged either to the office portfolio or to the shopping centre portfolio. Now, premises located in a single building can belong to two different portfolios. This also means that separate cash flow calculations are made for the building's retail and office premises. However, in the valuation, the property is treated as one entity in the sense that in the cash flow calculations, the office part and the retail part have the same yield requirement and it is assumed that in a potential transaction situation, the object of sale would be the whole property. Therefore, the new portfolio structure did not have any effect on the yield requirements.

In total, the changes in the portfolio structure affected ten properties, of which three are located in Tampere and seven in the Helsinki city centre. The Forum block properties (six assets), which were acquired in the beginning on 2016, are also split between the shopping centre portfolio and the office property portfolio.

Office Property Portfolio

Approximately 92 per cent of the value of Sponda's office property portfolio consists of properties located in the Helsinki Metropolitan Area, with the remaining 8 per cent located in Tampere, Oulu, Hämeenlinna and Vaajakoski. The properties located in the Helsinki city centre and in Ruoholahti form approximately 71 per cent of the value of the HMA properties and their proportion of the entire Finnish Office and Retail Portfolio is approximately 66 per cent.

One property, MREC Helsingin Kirvesmiehenkatu 4 (5,733 m^2), has been divested since Catella's previous inspection. No new acquisitions to the office property portfolio were carried out.

Based on Catella's review, the cash flow yield requirements in the office property portfolio were decreased in 36 cases, primarily by 5–20 basis points, but in some properties located in Helsinki city centre, the drop was larger. The changes concerned mainly properties located in the Helsinki city centre and in Ruoholahti, and they were primarily based on market factors and in some cases also on object-specific features. In other locations, the decrease in the cash flow yield requirements was mainly based on object-specific features (e.g., an improved rental situation). The yield requirements were increased in seven cases, mostly by 5–10 basis points. The changes were based on object-specific features (e.g., a weakened rental situation). In the other properties, the yield requirement remained unchanged. In addition, the occupancy rate assumptions were updated in some cases. The weighted average net yield requirement in the cash flow calculations was 5.96 % for the entire portfolio (30 June 2016: 6.04 %). The initial yield for the portfolio inspected by Catella was approximately 5.99 % (30 June 2016: 6.04 %). The economic occupancy rate of office properties was approximately 89.2 % (30 June 2016: approximately 88.3 %).

Shopping Centre Property Portfolio

The amount of assets in the shopping centre portfolio increased at the beginning of 2014 due to the structural portfolio changes described above, and it now consists of 24 assets (previously 16 assets). However, Catella did not inspect one of these properties because it is an unfinished development property included in the City-Center complex. As new acquisitions to the shopping centre property portfolio in the first half of 2016, six properties (a total of 44,080 m^2) are located in the Forum-block. No actual acquisitions were carried out to the portfolio in the first half of 2016, but as a consequence of property development, one new asset (MREC Oulun Alasintie 8, 4,057 m^2) has been added to the portfolio. The portfolio now has 31 assets.

Based on Catella's review, the cash flow yield requirements in the shopping centre property portfolio were decreased in 12 cases mainly by 10–20 basis points, but in some properties located in Helsinki city centre, the drop was larger. In the other properties, the yield requirement remained unchanged. The weighted average net yield requirement in the cash flow calculations for the shopping centre property portfolio inspected by Catella was 5.252 % (30 June 2016: 5.32 %). The initial yield for the portfolio was 4.96 % (30 June 2016: 5.11 %). The economic occupancy rate of the portfolio's shopping centres was 93.5 % (30 June 2016: 94.2 %), which also includes rentable premises in the City-Center properties.

Logistics Property Portfolio

With the exception of one property, the properties in the logistics portfolio are located in the Helsinki Metropolitan Area. The size of the properties varies so that the smallest objects are 2,000–3,000 m^2 in size, but after the sale of the Vuosaari properties, there are only a few objects left over the size of 10,000 m^2 and the largest property is approximately 15,000 m^2 in size.

The amount of assets in the logistic property portfolio has remained the same as in Catella's previous inspection, but now one property (MREC Karapellontie 4 C) has been excluded from Catella's review, because it has been valued as an unbuilt site by another valuation company.

Based on Catella's review, the cash flow yield requirement in the logistic property portfolio was decreased in one case by 20 basis points based on object-specific features. The occupancy rate assumptions and market rent assumptions remained mainly unchanged. The weighted average net yield requirement in the cash flow calculations was 9.15 % (30 June 2016: 9.11 %) for the entire logistics property portfolio. The initial yield for the logistics property portfolio inspected by Catella was 7.01 % (30 June 2016: 6.70 %) while the economic occupancy rate was 74.0 % (30 June 2016: 73.4 %).

Summary

In our opinion, the yield requirements and market rent assumptions used in Sponda's valuation calculations correspond to the actual market yields and rents on the date of valuation.

Some properties in the office and retail portfolio as well as the logistics portfolio have unused building rights, but the value of the unused building rights has not been taken into account when calculating the aforementioned initial yields. The properties in the shopping centre portfolio do not have any unused building rights.

The economic occupancy rates of Sponda's investment properties correspond to the average figures on the market for the part of the office property and shopping centre property portfolios. The economic occupancy rate of the logistics property portfolio is lower than the average rate on the market.

The transaction volume in 2016 increased to a new record level – however, the share of residential portfolios in the volume was significant. The scarcity of the prime properties for sale and the strong demand for these led to a decrease in the yield requirements in the latter half of 2016, especially in the Helsinki city centre and other good office districts. Regarding Sponda's assets, the changes in the cash flow yield requirements were primarily caused by market factors and secondarily by object-specific changes or characteristics related to factors such as the location, technical condition, current rental situation and future rentability of the premises.

No notable changes in the operating costs of the properties compared to the situation last summer (Q2-2016) were made in connection with this valuation.

Catella Property Oy

Helsinki, 17 January 2017

Pertti Raitio
Senior Valuer, MRICS
M.Sc. (Tech.)
Authorised Property Valuer approved by the Central Chamber of Commerce

Arja Lehtonen
Director of Valuation & Consulting
M.Sc. (Tech.)
Authorised Property Valuer approved by the Central Chamber of Commerce