

# STATEMENT

Evaluation of the fair value of Sponda Oyj's  
investment properties on 30 September 2009



CATELLA PROPERTY GROUP

**SPONDA**



## **EVALUATION OF THE FAIR VALUE OF SPONDA OYJ'S INVESTMENT PROPERTIES**

Sponda Oyj 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 audited Sponda Oyj's internal property assessment process and calculation methods in autumn 2007 and verified that these fulfil IFSR requirements, the commonly approved valuation criteria and are made according to international valuation standards (IVS).

On the date of valuation, 30 September 2009, Catella inspected the data regarding assumptions of market rents, operating costs and occupancy rates and enquired into the net yield requirements and their affect 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, properties located in Russia and real estate funds 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.

Catella has not carried out any inspections on the sites during this valuation period nor on any earlier occasions. The rental data has been obtained from Sponda Oyj in table format, the actual lease agreements have not been inspected.

## **MARKET SITUATION**

### **Economic Situation**

During the summer there have been more and more signs indicating that the world economy is starting to slowly recover from the recession. Economic growth has perked up especially in Asia, but also in Australia, in the United States and in some European countries production has rebounded. According to the opinion of economists, the embryonic growth is a consequence of the massive public resuscitation and warehousing cycle. Private consumption and investments have not clearly increased, which indicates that it is not yet time to speak of sustainable growth. However, several proactive indicators have strengthened so that there is a reason to believe that more extensive growth of the world economy will take off in autumn. Nonetheless, the recession is still deep and the recovery is decelerated by the overcapacity problems in industrial production, increasing unemployment and the heavily increasing debt of the public sector.

According to most forecasts in Finland, the bottom of the economic cycle will be reached at the end of 2009 or at the beginning of 2010. In the second half of 2009 Finland's GDP shrank 9.4 % compared to the same period in the previous year and 2.6 % compared to the previous quarter. Especially noteworthy is the significant decrease in exports; in the first half of 2009 the proportion of exports in the GDP was only 35 per cent, while one year ago it recorded 49 per cent. Finland's export-driven and investment goods focused economy has proven more vulnerable and volatile than earlier predicted, which means that regarding economic recovery Finland has a weaker position than several other European countries. It seems that

the economic growth in Finland will begin a bit later than in other European countries and the recovery will be slow and toilsome.

The opinions of domestic forecasters on economic development in 2009 have further darkened in September. For the next year the forecasters expect slight improvement on several key ratios, but they had this kind of view already before summer and there has not been any positive development during the latest quarter in this respect. Regarding the development of unemployment almost all forecasters have now predicted a bleaker scenario. The table below shows the forecasts given in September 2009.

<b>FORECASTER - September 2009</b>	<b>GDP 2009</b>	<b>GDP 2010</b>	<b>EXPORT 2009</b>	<b>INFLATION 2009 - 2010</b>	<b>UNEMPLOYMENT RATE 2010</b>
Bank of Finland	- 7.2 %	+/- 0 %	- 26.6 %	0.3 % - 1.2 %	10.5 %
Pellervo Economic Research	- 6.0 %	+ 1.5 %	- 25.0 %	0.5 % - 1.5 %	10.8 %
The Research Institute of the Finnish Economy, ETLA	- 7.0 %	+ 1.5 %		0.3 % - 1.9 %	11.0 %
Tapiola Bank	- 7.2 %	- 0.3 %	- 22.5 %	-0.5 % - 0.7 %	11.2 %
Aktia Bank	- 6.0 %	+ 1.3 %	- 22.0 %	0.3 % - 1.3 %	10.2 %
Labour Institute for Economic Research	- 5.5 %	+ 1.8 %	- 16.4 %	0.2 % - 1.6 %	11.1 %
Nordea	- 4.5 %	+ 2.5 %	- 17.1 %	0.0 % - 1.2 %	9.4 %
Ministry of Finance	- 6.0 %	+ 0.3 %	- 22.0 %	0.1 % - 1.2 %	10.5 %

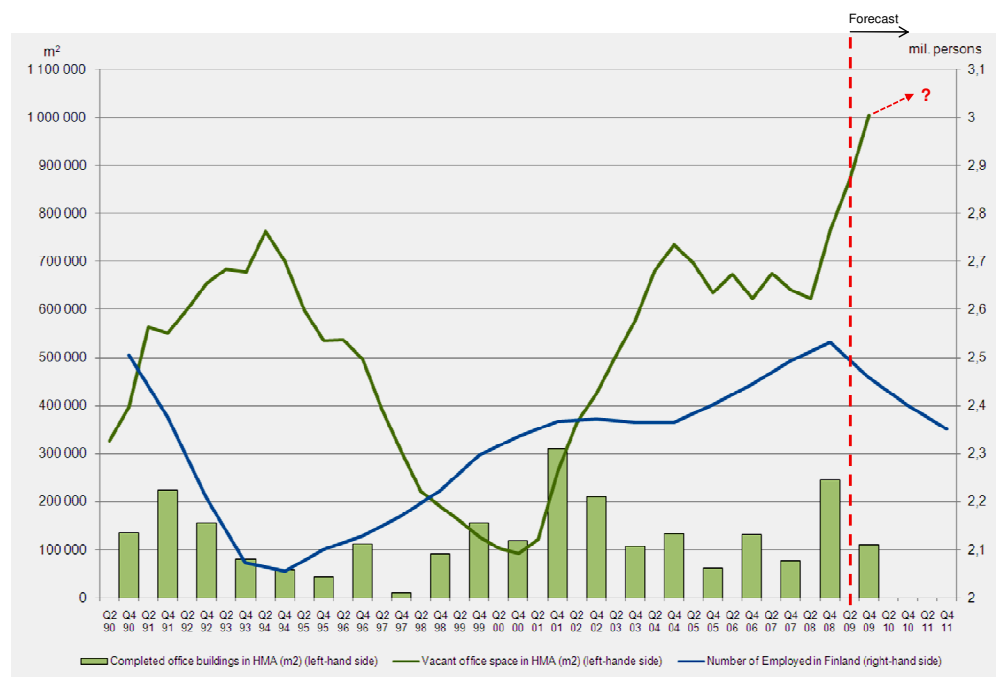
According to the Confederation of Finnish Industries (EK) the confidence indicators reflecting the economic situation of different industries are still at a very low level, although a slight upturn took place during the summer. Expectations regarding manufacturing production volumes are little brighter, but the upturn is not on the horizon for the next few months, on the contrary production volumes are expected to decrease slightly in the near future. The order books of the construction companies are thin, although the situation is a bit better than during the summer, but further personnel decrease is expected in the near future. Also in the service sector the overall business situation is weak; the decrease of the sales volumes has continued, but decline is expected to stabilize in the last quarter – the sales volume should diminish only slightly.

Even if modest positive signals can be seen in the economy, unemployment continues to grow. In September 2009 the unemployment rate was approx. 1.4 percentage points higher than one year ago, meaning an unemployment rate of 7.3 percent. According to Statistics Finland's Labour Force Survey, there were 192,000 unemployed people in September 2009, i.e. 34,000 more than in September the year before.

Consumers' confidence in the economy has clearly recovered this year. The Consumers' Confidence Indicator stood at +11.7 in September while having been -1.5 in March and at its lowest -6.5 in December last year. Consumers' confidence is now higher than in September a year ago, when the indicator stood at +8.1 and in September 2009 the indicator was only slightly weaker than the long-term average.

When looking at the economic situation from the property market perspective it is important that companies' confidence in the future and employment figures remain at a sustainable level. These factors will sustain the demand for business premises. Private consumption has an affect on retail trade sales and therefore on the demand for retail premises.

The figure below describes the correlation between the number of employed persons and the amount of vacant office premises in the Helsinki Metropolitan Area.



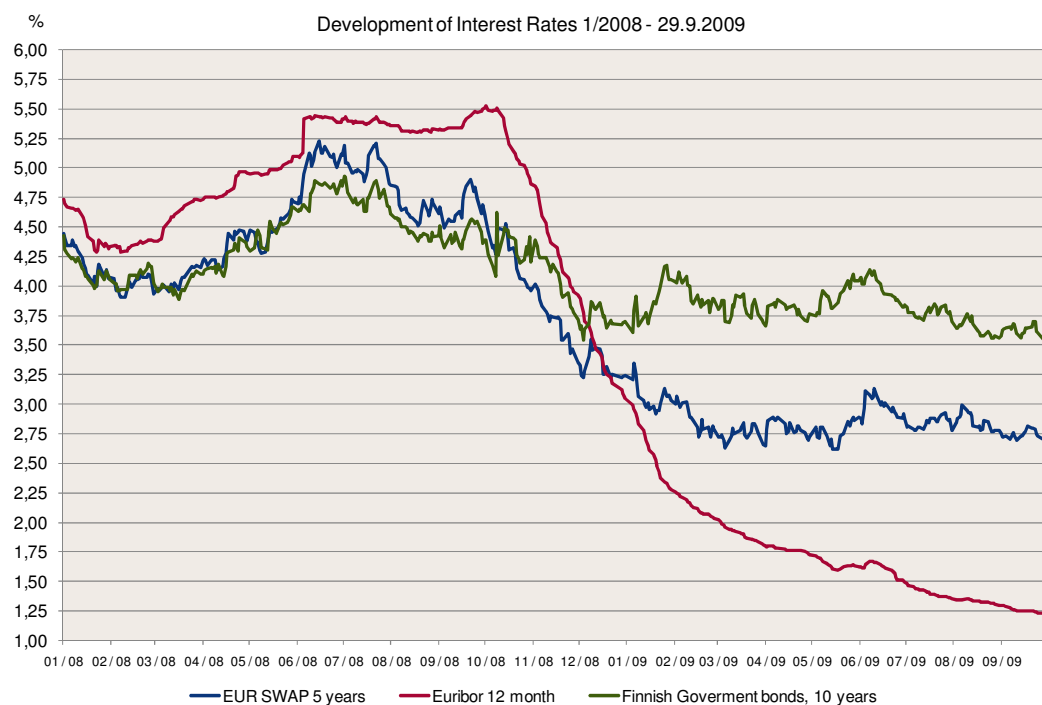
SOURCE: Catella, Statistic Finland, forecasters' estimations regarding the development of employed persons

## Interest Level and Finance Market

The situation in the finance market has normalized remarkably during the summer. Although the banks' and the bond market's margins are still higher than a couple of years ago, the finance market does not form any major obstacle to recovery any more. The banks' own funding is still more expensive than normal. Investors are again willing to buy corporate bonds, which confirms the financial situation of the companies and also creates opportunities for investments. However, normally only large companies operate in the bond market. Smaller companies must lean on bank financing and from their point of view the loosening of the finance market is not yet relevant. Banks are cautious about the credit risks of their customers, because there is a delay before bankruptcies and credit disorders start to appear. The risk of deflation seem to be smaller than a few months ago, but on the other hand, nor can an inflation risk be seen in the near future.

The European Central Bank (ECB) has held its benchmark rate at a historically low level of 1.0 per cent since May. This has acted as a helpful counterbalance to the fact that the margins are still somewhat higher than normal. Furthermore, the banks can have liquidity from the ECB quite freely. The actions of the ECB have given flexibility to the lender banks and by these means contributed to the fact that there have not been too many distressed sales in the property market, unlike expectations at beginning of the year.

The figure below describes the development of the Euribor (12-month) 1/2008 – 9/2009, Finnish Government bond (10-year) and EUR SWAP (5-year) which is commonly used as the interest rate base for real estate investment loans.



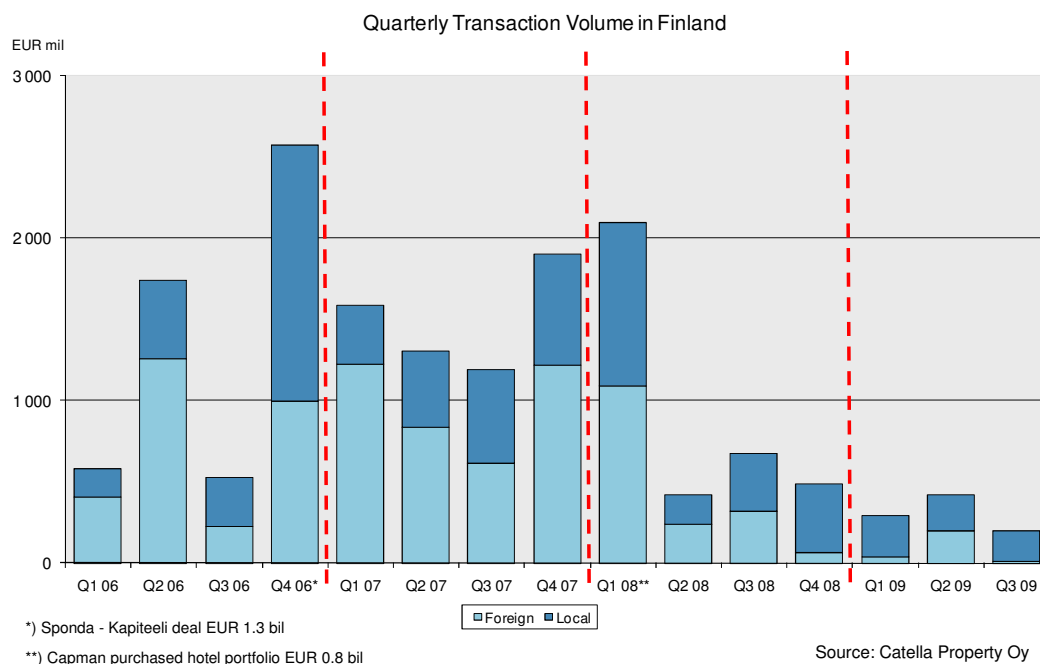
Banks have again cautiously started to give financing to investors, but the terms (loan-to-value ratio and margins) are significantly tighter than before the crisis.

## Investment Market

The transaction activity in the Finnish property market is still very low. On the market there are only a few investors who are interested in buying and their interest is focused predominantly on properties, which have a prime location or, at least, a long lease agreement and secured rental cash flow. Obstacles to transactions are the rather wide spreads between buyers' and sellers' views on pricing as well as the lack of supply of prime-properties, which would fulfill the investment criteria. There is practically no interest in properties with poor locations or unsecured rental situations, because investors want to avoid any risks.

By the end of September the transaction volume was only approx. EUR 1,1 billion. In most transactions the buyer was a domestic institutional investor. The most significant property bought by a foreign investor was Swing Life Science Center in the Keilaniemi area of Espoo. The purchase price was approx. EUR 120 million and the buyer was German Commerz Real AG Fund.

The figure below describes quarterly transaction volume of the Finnish commercial property market Q1/2006 – Q3/2009.

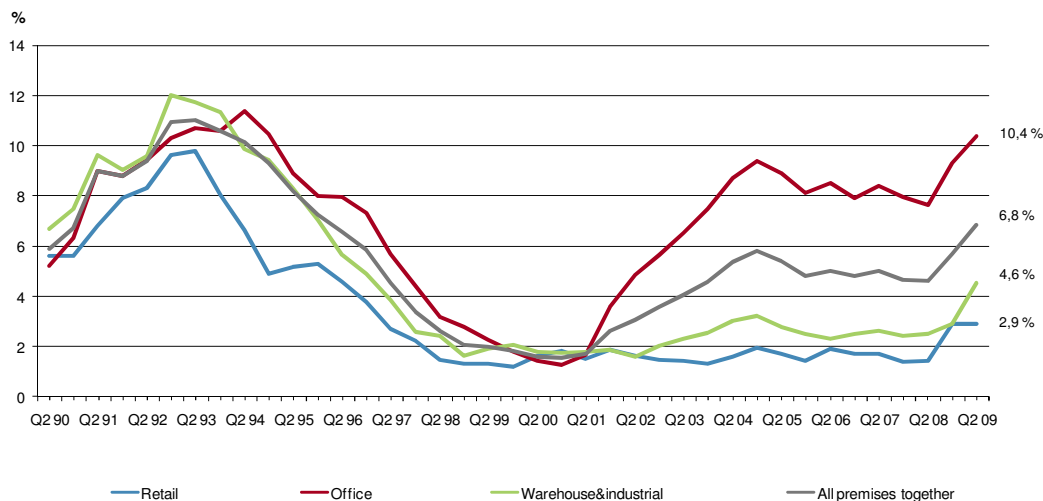


## Letting Market

In the first half of 2009 vacancy rates have increased in every type of premises except in retail premises. The problems in the real economy have clearly started to affect the tenants' economic situation and due to the diminishing volume of the business activities and the number of employees, less business premises are needed. Requests for rent decreases are more common and there are more rent-free months or other subventions in new leases. Landlords are more willing to accept lump sum deductions than reductions in rent, which have a long-term affect. However, reductions in rents are probably unavoidable.

According to Catella's survey made at the end of June 2009, the average vacancy rate of all commercial premise types in the Helsinki Metropolitan Area (HMA) was 6.8 % (Q4-2008: 5.7 %). The vacancy rate of retail premises stayed stable, the vacancy rate increased most in industrial and warehouse premises (2.9 % => 4.6 %). However, the highest vacancy was in office premises, which also suffered a vacancy rate increase during the first half of 2009 (9.3 % => 10.4 %). However, the vacancy rate of the office premises in the Helsinki CBD is lower, on a level of 4.3 %. According to Catella's forecast the office vacancy rate will further increase in the HMA to a level of 12 % by the end of 2009.

#### VACANCY RATE IN HELSINKI METROPOLITAN AREA



Over the past three years, approx. 400,000 m<sup>2</sup> of new office premises have been completed in the Helsinki Metropolitan Area and still approx. 64,000 m<sup>2</sup> is under construction. There is approx. 870,000 m<sup>2</sup> vacant office space, which means that the vacancy is almost 40 % higher than one year ago. Due to the vacancy rate increase and the lack of investment demand not a single new office construction project have been launched in the HMA this year and in the coming years new construction production will be scant.

#### THE RESULTS OF THE VALUATION

The date of valuation for Sponda Oyj's investment properties is 30 September 2009. Hereafter the key figures of this valuation date have been compared with the key figures of the valuation made in 31 March 2009, because Catella did not give a statement on Sponda Oyj's internal calculation of the fair value on 30 June 2009.

The weighted average net yield requirement in the cash flow calculations was 6.86 % (31 March 2009: 6.84 %) for the entire investment property portfolio. The initial yield for the investment property portfolio inspected by Catella was approx. 6.66 % (31 March 2009: 6.94 %). The economic occupancy rate of Sponda's whole Finnish property portfolio was approx. 86.8 % (31 March 2009: approx. 88.8 %). The occupancy rate figures also include trading properties.

#### Office and Retail Properties

Approx. 90 % of the value of Sponda Oyj's office and retail property portfolio consists of properties located in the Helsinki Metropolitan Area and the remaining 10 % of the properties are located in Tampere, Turku and Oulu. The properties located in the Helsinki city centre and in Ruoholahti form 84 % of the value of the HMA properties and their proportion of the entire office and retail portfolio is approx. 75 %. No acquisitions or divestments were carried out from the portfolio in the third quarter of 2009.

The cash flow yield requirements in the office and retail property portfolio were raised in 39 cases depending on object-specific features by 10 - 25 basis points compared to the previous quarter's figures. In four properties the yield requirement decreased 10 – 20 basis points due to the improved rental situation. The weighted average net yield requirement in the cash flow calculations was 6.65 % for the entire portfolio (31 March 2009: 6.62 %). However, the initial yield for the portfolio inspected by Catella was higher, approx. 6.72 % (31 March 2009: 6.98 %). The economic occupancy rate of office and retail properties was approx. 87.8 % (31 March 2009: approx. 90.5 %) The occupancy rate figures also include trading properties.

### Shopping Centre Properties

The shopping centre portfolio consists of fifteen properties, but Catella has not inspected three of these properties, because they are unfinished development properties included in the City-Center complex. The value at the beginning of the development project is used as the current fair value of these three properties. The cash flow yield requirement in the shopping centre property portfolio was raised in one case by 25 basis points compared to the previous quarter's figures, in 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 6.11 % (31 March 2009: 6.10 %). However, the initial yield for the portfolio was higher, approx. 6.89 % (31 March 2009: 6.79 %). The economic occupancy rate of the portfolio's shopping centres was approx. 97.3 % (31 March 2009: approx 97.8 %), which also includes rentable premises in the City-Center properties. No acquisitions or divestments were carried out from the portfolio in the third quarter of 2009.

### Logistics Properties

The properties of the logistics portfolio are located in the Helsinki Metropolitan Area except for one property. The size of the properties varies significantly; the smallest objects are 2,000 – 3,000 m<sup>2</sup> in size while the largest property is over 64,000 m<sup>2</sup> in size. In the second quarter of 2009 two objects were sold from the logistic portfolio (Koy Vantaan Sähkötie 1, 11,625 m<sup>2</sup> ja Koy Vantaan Äyrikuja 3, 9,197 m<sup>2</sup>). New acquisitions were not made to the portfolio.

The cash flow net yield requirements in the logistics property portfolio were raised in 23 cases depending on object-specific features by 5 - 30 basis points compared to the previous quarter's figures. The weighted average net yield requirement in the cash flow calculations was 8.10 % for the entire logistics property portfolio (31 March 2009: 8.02 %) The initial yield for the logistics property portfolio inspected by Catella was approx. 6.25 % (31 March 2009: 6.95 %) while the economic occupancy rate was approx. 75.0 % (31 March 2009: approx. 78.8 %).



The occupancy rate of the new properties at Vuosaari Harbour is still rather low, which has a lowering effect on the whole portfolio's occupancy rate and initial yield. Excluding the properties in Vuosaari the portfolio's economic occupancy rate is approx. 84 % and initial yield approx. 8.1 %.

### **Summary**

According to our opinion, the yield requirements used in Sponda Oyj's valuation calculations correspond to the market yields on the date of valuation.

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

The economic occupancy rates of Sponda Oyj's investment properties correspond to the average figures on the market regarding the office and retail property portfolio and the shopping centre property portfolio. The economic occupancy rate of the logistics property portfolio is lower than the average rate on the market, which is partly caused by the high vacancy of the new properties at Vuosaari Harbour. Even if excluding the properties in Vuosaari the occupancy rate of the logistics portfolio is lower than the average rate of the logistic properties in the Helsinki Metropolitan Area. Over the last half year the economic occupancy rate of Sponda Oyj's investment properties has decreased by approx. 2 percent on average; the occupancy rate of the shopping centre portfolio has remained unchanged, but the occupancy rate of the logistics portfolio has decreased almost four percent.

The weighted average net yield requirement of the all investment properties in the cash flow calculations has remained at the same level as half a year ago, but in single properties the yield requirements have increased in several cases and, on the other hand, also decreased in some properties. When viewing the portfolio level, there has been an increase of 0.1 percent in the cash flow yield requirement of the logistics portfolio. In addition, regarding some properties, the market rent levels were decreased and / or vacancy rate assumptions were increased in the cash flow calculation, which caused a decrease in the fair value of these properties.

Sponda Oyj has revised the operating costs of the properties in connection with the valuation which was carried out on 30 June 2009. According to the obtained information, Sponda Oyj has updated the operating costs of each property based on the realized operating costs from 2008, the budgeted operating costs for 2009 and the forecasted operating costs for 2009. From these three figures the best estimation for the long term operating cost level was used in the valuation; in some properties the operating costs decreased and in some increased. According to the information obtained from Sponda Oyj the total affect of the revised operating costs on the fair value of the investment property portfolio was approx. EUR -4 million. In connection with this inspection Catella did not have detailed information available regarding the factors that caused the change in the operating

cost level; if the new level deviated from the typical operating costs level of the property type in question, we have given a comment on the matter to Sponda.

During the third quarter rather few new lease agreements have been established. In those premises, which have new lease agreements, generally speaking the rents have not decreased compared to the previous rent level.

Catella Property Oy

Helsinki, 23 October 2009

A handwritten signature in blue ink, appearing to read "Pertti Raitio".

Pertti Raitio  
Senior Valuer  
Authorized Real Estate Valuer

A handwritten signature in blue ink, appearing to read "Arja Lehtonen".

Arja Lehtonen  
Director of Valuation & Consulting  
Authorized Real Estate Valuer