

# STATEMENT

Evaluation of the fair value of Sponda Plc's  
investment properties on 31 December 2009



CATELLA PROPERTY GROUP

**SPONDA**



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

Sponda Plc 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 Plc'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, 31 December 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 Plc in table format, the actual lease agreements have not been inspected.

## GENERAL ABOUT ECONOMIC SITUATION

The recovery of the **world economy** has proceeded throughout the autumn, but the foundations of the economic growth are still fragile and the faint upswing is mainly based on public resuscitation. Industrial production in the United States has been growing for the last five months and also sales in the retail trade have increased slightly in the recent months. The Federal Government is going to continue the resuscitation of the economy also in 2010, the low exchange rate of the dollar supports export companies and a gentle monetary policy will subsidize the economy. However, the stabilization of the employment prospects is a key factor in order to get the American consumers off the ground and sustainable growth will not take off until private consumption recovers. In Asia the real economy is on its way to recovery and it is more and more based on private consumption. According to preliminary data, the GDP of China increased 8.5 percent in 2009 and it is going to unseat Japan from its position as the world's second largest economy. The recovery has also begun in other Asian countries than China and the focus of the world economy is transferring to Asia because of its expansive population. However, China and the other Asian countries hardly can draw the world economy out of the recession, for that mission western consumers and investors are also needed. (Source: Sampo Pankki, Economic Situation and Finance Market, 17 December 2009)

The GDP of the **euro zone** will decrease approx. 4 percent in 2009, but the bottom of the economic cycle was reached in the summer. In the third quarter the GDP of the euro zone countries increased 0.4 percent compared to the previous quarter and for 2010 an increase of two percent is expected. Exports seem to be in the key position regarding the recovery of the euro zone economy, because the growth potential of consumer demand seems to be weak and neither are investments growing rapidly. However, the high

exchange rate of the euro threatens the price competitiveness of companies in the global market and the internal demand of the euro zone is weak.

The **Finnish economy's** nosedive at the end of 2008 and in the beginning of 2009 was fast and sharp. GDP has plummeted to the same level it was about three years ago. Output still declined by as much as 9.1% in Q3-2009 compared to the same period a year earlier, but it was up by 0.3% on Q2-2009, accounted for by an increase in public investment and private consumption. Based on the forecast of the Ministry of Finance, the current economic cycle has bottomed out and the Finnish economy will slowly start to recover. GDP in 2009 is expected to decrease by 7.6%, in other words more than in any of the recession years of the early 1990s. Growth for Q4-2009 is projected at about 0.5 % on Q3-2009. The Ministry of Finance forecasts that with investment continuing to fall, the Finnish economy will grow by 0.7% in 2010, while in 2011, with all demand items expected to increase, it will grow by 2.4%. Following the sharp fall in level, economic growth will thus be sluggish. Being a small open economy, Finland's economic activity is highly dependent on cyclical fluctuations in the global economy. In 2009 Finland's economic growth was one of the weakest in the euro area. In 2010, economic recovery in Finland is likely to be more modest than in competing countries, supporting the view that Finland will join the path of recovery in international demand later than the rest. Economic activity in Finland is calculated to be slightly higher than the euro area average in 2011 compared to OECD forecasts for the euro area, for example. (**Source:** Ministry of Finance Economics Department, Economic Bulletin, 18 December 2009)

According to domestic forecasters the bottom of the economic cycle has been reached and they believe that in 2010 the economic development will strengthen slightly. The opinions of domestic forecasters on economic development in 2010 are slightly brighter than in September. The table below shows the forecasts given in December 2009.

FORECASTER - December 2009	GDP 2009	GDP 2010	EXPORT 2010	INFLATION 2009 - 2010	UNEMPLOYMENT RATE 2010 - 2011
Sampo Bank	- 7.2 %	+ 1.5 %	+ 6.0 %	1.2 % - 2.0 %	10.2 % - 9.2 %
Tapiola Bank	- 7.2 %	+ 1.0 %	+ 2.0 %	0.7 % - 1.5 %	11.2 % - 11.0 %
Handesbanken	- 7.0 %	+ 1.9 %	+ 6.2 %	1.0 % - 1.8 %	9.8 % - 9.7 %
Ministry of Finance	- 7.6 %	+ 0.7 %	+ 5.0 %	1.2 % - 1.5 %	10.5 % - 9.6 %

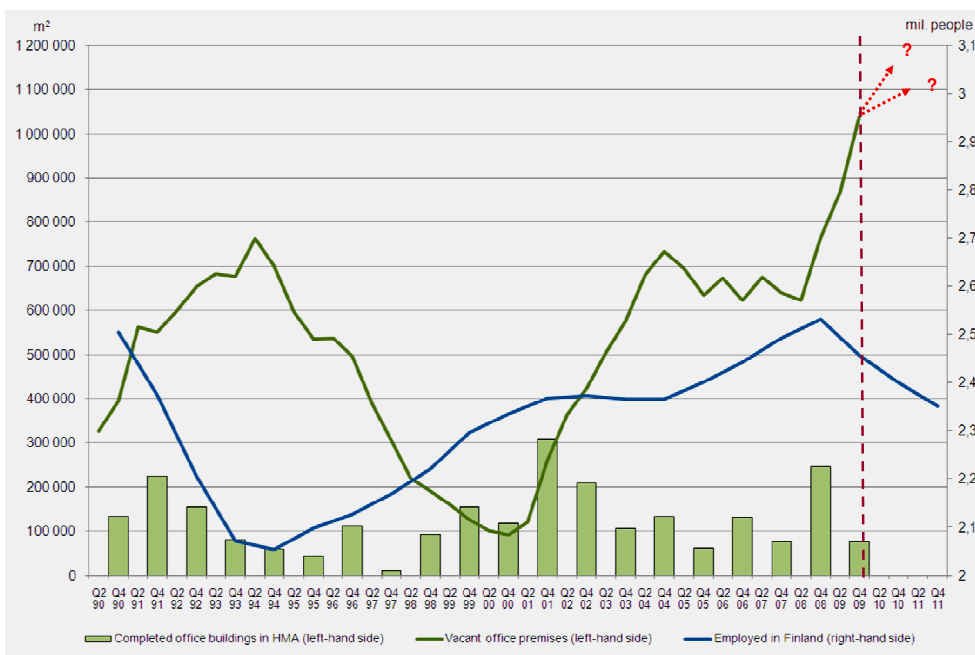
According to the survey on 28 December 2009 by the Confederation of Finnish Industries (EK) the confidence indicators reflecting the economic situation of different industries are still at a low level, although an upturn took place during 2009. **The manufacturing confidence indicator** strengthened clearly in December due to brighter production expectations and decreasing stocks of final goods, but the indicator figure is still substantially below the long-term average. The economic situation is still weak: there is a lot of vacant production capacity and order books are thin. **Construction confidence indicator** improved further in December. Order books continued to improve gradually, although the amount of assignments is still low. Further personnel decreases are expected, but not at the same extent as earlier. **Service companies** describe their business situation as quite weak. Sales volumes were in a slight decline in December, but some growth is expected for the beginning of 2010.

Even if modest positive signals can be seen in the economy, unemployment continues to grow. In November 2009 the unemployment rate was approx. 2.5 percentage points higher than one year ago, meaning an unemployment rate of 8.5 percent. According to Statistics Finland’s Labour Force Survey, there were approx. 224,000 unemployed people in November 2009, i.e. 63,000 more than in November the year before. The Ministry of Employment and the Economy estimates that the amount of furloughed people in November was approx. 77,000.

Consumers' confidence in the economy has clearly recovered in 2009. The Consumers' Confidence Indicator stood at + 14.4 in December while having been -1.5 in March and at its lowest -6.5 in December 2008. Consumers' confidence in December 2009 was slightly stronger than confidence on average in the long term and stronger than it had been for two years.

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

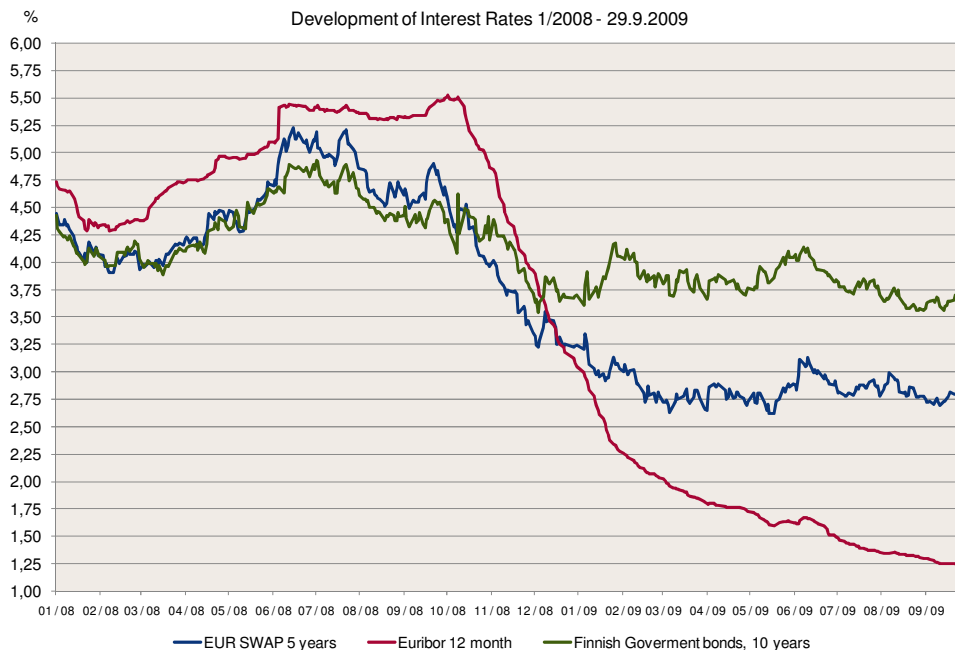
The situation in the finance market has further normalized in the autumn. Credit risk pricing of the bank-to-bank lending market has returned mainly back to the level seen prior to the crisis. Loan margins for companies have decreased slightly in the banks and

the bond market, but they are still higher than a couple of years ago. However, the finance market does not form any major obstacle to recovery any more. Investors are again willing to buy corporate bonds, which confirms the financial situation of larger companies and also creates opportunities for investments.

The European Central Bank (ECB) has been forced to keep its benchmark rate at a historically low level due to the facts that industrial countries have descended into recession, the price bubble of raw materials has burst, the risk of deflation has increased, non euro zone central banks have lightened their monetary policy, and the credit crunch has jeopardized the solvency of many lender banks. In addition, the ECB has introduced some extraordinary vehicles like giving banks unlimited liquidity even for one year. The ECB will start tightening its monetary policy gradually by first withdrawing the extraordinary vehicles and the benchmark rate will be increased thereafter. For example Sampo Bank forecasts that the Euribor rates will increase approx. one percentage unit in the next year. Long-term interest rates have the highest upward pressure, because the heavy indebtedness of governments will increase the yield requirement especially concerning those countries that increase their debt load rapidly.

The actions of the ECB have given flexibility to lender banks and partially have contributed to the fact that there have not been too many distressed sales in the property market, unlike expectations at the beginning of 2009. According to some forecasts there are still risks of depreciation in the banks' balance sheets which could destabilise the financing system.

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



Source: Nordea, the Bank of Finland and Bloomberg

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

The finance market still constitutes a menace to the recovery of the real estate sector, because the refinancing of loans, which were taken during the boom, will be a larger topical issue in 2011 – 2013. Banks may not be willing to continue the current loans, especially, if the loan-to-value ratio has been high and if the market values of the properties have decreased compared to the amount of the loan.

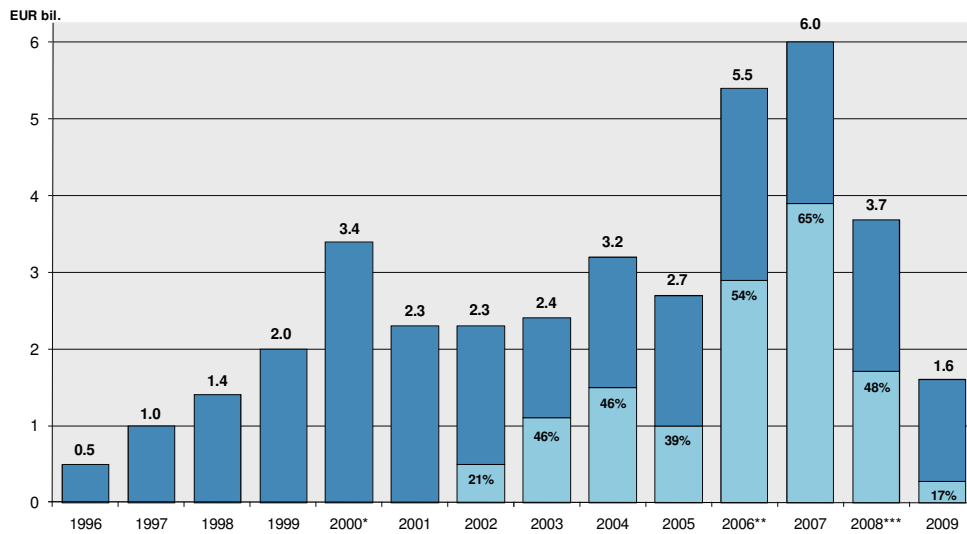
## PROPERTY MARKET

When reviewing the activity of the Finnish commercial property market in 2009, the most outstanding changes were the crash of the transaction volume and the absence of foreign investors. According to preliminary data the transaction volume in 2009 quieted down to a level of EUR 1.6 billion. The transaction volume was lower than this previously in 1998. The only noteworthy property acquisition made by a foreign investor was the Swing Life Science Center office complex in the Keilaniemi area of Espoo.

### Investment Market

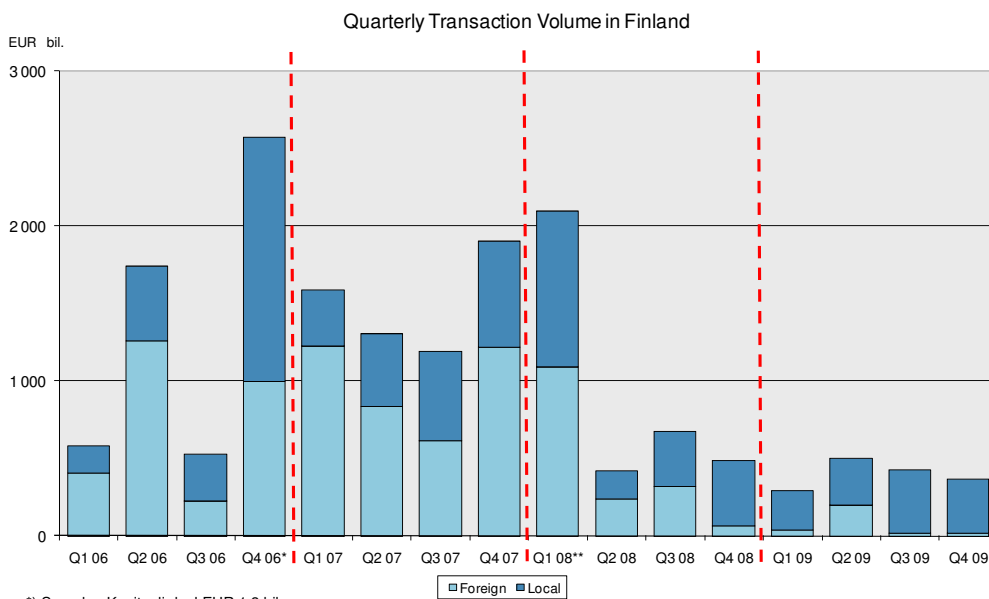
The transaction activity in the Finnish property market has been quite low in the past year and most buyers have been domestic investors. Especially pension insurance companies like e.g. Varma Mutual Pension Insurance Company have expanded their property portfolio. In the growth cities outside the Helsinki Metropolitan Area the local investors have also bought investment properties. Some foreign investors have taken part in competitive biddings, but it has been typical that their yield requirements have been higher than the yield requirement of domestic pension insurance companies. Also in this respect the market situation has changed compared to the circumstances a few years back when domestic pension insurance companies could not win the price war against the foreign investors who considered the Finnish property market very attractive and bought properties with very low yield requirements. At the moment, investors are mainly interested in properties, which have a prime location or, at least, a long lease agreement and secured rental cash flow, but there is a shortage of such properties, which would fulfill the investment criteria. In addition, it is noteworthy that during a recession the definition of a prime location becomes tighter, meaning that a prime location will be defined as a more compact area than earlier. There is practically no interest in properties with poor locations or unsecured rental situations, because investors want to avoid any risks.

Already in 2008 the transaction volume dropped almost 40 percent compared to the previous record year and reached approx. EUR 3.7 billion. The volume in 2009 fell to less than half of the previous year's volume. The charts below describe the development of the transaction volume in the Finnish commercial property market between 1996 – 2009 (upper chart) and quarterly in the time period Q1/2006 – Q4/2009 (lower chart).



\*) Aleksia sale approx. EUR 1.1 bil  
 \*\*) Sponda - Kapiteeli deal EUR 1.3 bil  
 \*\*\*) Capman purchased hotel portfolio EUR 0.8 bil

Source: Catella Property Oy



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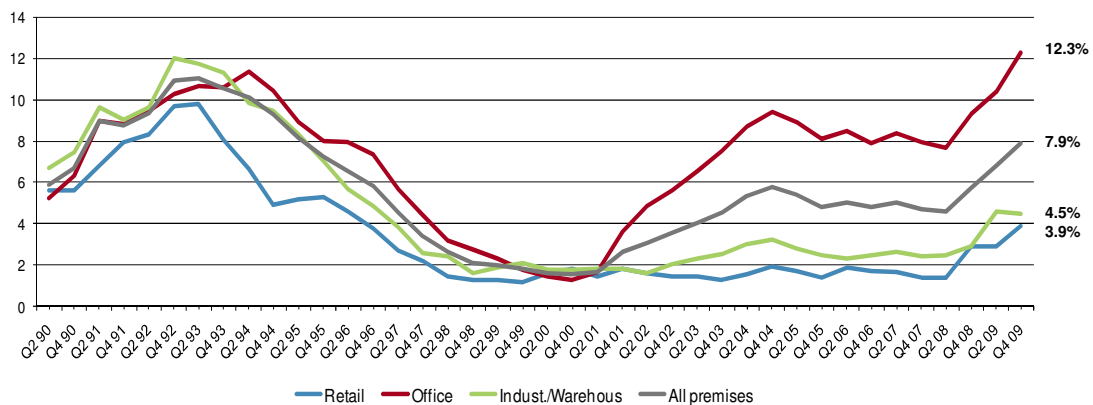
Source: Catella Property Oy

## Letting Market

In the second half of 2009 vacancy rates have increased in every type of premises except in industrial and warehouse premises. The problems in the real economy have clearly started to affect tenants' economic situation and due to the diminishing volume of 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 also probably unavoidable. It is more difficult to establish long lease agreements than earlier.

According to Catella's survey made at the end of December 2009, the average vacancy rate of all commercial premise types in the Helsinki Metropolitan Area (HMA) was 7.9 % (Q2-2009: 6.8 %). The vacancy rate of industrial and warehouse premises stayed stable and the vacancy rate of retail premises increased one percentage unit (2.9 % => 3.9 %). The highest vacancy is in office premises and in this category the vacancy rate also increased most in the second half of 2009 (10.4 % => 12.3 %). There is approx. 1,040,000 m<sup>2</sup> of vacant office space in the Helsinki Metropolitan Area. However, the vacancy rate of the office premises in the Helsinki CBD is lower and the changes were modest (4.3 % => 4.6 %).

**VACANCYRATE IN HMA (%)**



Over the past three years, over 400,000 m<sup>2</sup> of new office premises have been completed in the Helsinki Metropolitan Area and approx. 43,000 m<sup>2</sup> are still under construction. Due to the vacancy rate increase and the lack of investment demand only one new office construction project has been launched in the HMA in 2009 and in the coming years new construction production will be scant.

## THE RESULTS OF THE VALUATION

The date of valuation for Sponda Plc's investment properties is 31 December 2009.

The weighted average net yield requirement in the cash flow calculations was 6.87 % (30 September 2009: 6.86 %) for the entire investment property portfolio. The initial yield for the investment property portfolio inspected by Catella was approx. 6.58 % (30 September 2009: 6.66 %). The economic occupancy rate of Sponda's whole Finnish property portfolio was approx. 86.5 % (30 September 2009: approx. 86.8 %). 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 approx. 80 % of the value of the HMA properties and their proportion of the entire office and retail portfolio is approx. 72 %. No acquisitions or divestments were carried out from the portfolio in the last quarter of 2009 except divestment of two small retail premises in Tampere.



The cash flow yield requirements in the office and retail property portfolio were raised in 27 cases depending on object-specific features by 5 - 20 basis points compared to the previous quarter's figures, in other properties the yield requirement remained unchanged. In addition, the occupancy rate and market rent assumptions in the cash flow calculation were decreased in several cases. The weighted average net yield requirement in the cash flow calculations was 6.67 % for the entire portfolio (30 September 2009: 6.65 %). The initial yield for the portfolio inspected by Catella was only slightly higher, approx. 6.68 % (30 September 2009: 6.72 %). The economic occupancy rate of office and retail properties was approx. 87.9 % (30 September 2009: approx. 87.9 %) 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 for two of these properties. One property (Aleksi-Hermes) is valued as an investment property under construction according to IFRS standards.

The cash flow yield requirement in the shopping centre property portfolio was raised in one case by 10 basis points compared to the previous quarter's figures, in the other properties the yield requirement remained unchanged. In addition, in the cash flow calculation, the market rent assumption regarding a certain type of premises was decreased in one case. The weighted average net yield requirement in the cash flow calculations for the shopping centre property portfolio inspected by Catella was 6.12 % (30 September 2009: 6.11 %). However, the initial yield for the portfolio was higher, approx. 6.89 % (30 September 2009: 6.89 %). The economic occupancy rate of the portfolio's shopping centres was approx. 96.4 % (30 September 2009: approx 97.3 %), which also includes rentable premises in the City-Center properties. No acquisitions or divestments were carried out from the portfolio in the last 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. No acquisitions or divestments were carried out from the portfolio in the last quarter of 2009.

The cash flow net yield requirements in the logistics property portfolio were raised in 11 cases depending on object-specific features by 10 - 20 basis points compared to the previous quarter's figures. In addition, the occupancy rate and market rent assumptions in the cash flow calculation were decreased in a couple of cases. The weighted average net yield requirement in the cash flow calculations was 8.11 % for the entire logistics property portfolio (30 September 2009: 8.10 %) The initial yield for the logistics property portfolio inspected by Catella was approx. 6.0 % (30 September 2009: 6.25 %) while the economic occupancy rate was approx. 74.5 % (30 September 2009: approx. 75.0 %).

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. 82 % and initial yield approx. 7.8 %.

## Summary

In our opinion, the yield requirements and market rent assumptions used in Sponda Plc'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 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 Plc'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 quarter of the year the economic occupancy rate of Sponda Plc's investment properties has decreased by approx. 0.3 percentage units on average; the occupancy rate of the office and retail properties has remained unchanged, the occupancy rate of shopping centre portfolio has decreased by 0.9 percentage units and the occupancy rate of the logistics portfolio has decreased 0.5 percentage units.

The weighted average net yield requirement of the all investment properties in the cash flow calculations has increased by 0.01 percentage units during the last quarter of 2009, but in single properties the yield requirements have increased by 0.05 – 0.20 percentage units in some cases. When viewing the portfolio level, the average yield requirement has increased by 0.01 - 0.02 percentage units in each portfolio. In addition, regarding some properties, the market rent level assumptions 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.

In the Finnish property market the increase of the yield requirements in prime-properties seems to come to a stop in the second half of 2009. The increase of the yields in some of Sponda's investment properties were caused by the property specific characters related to e.g. the current rental situation of the premises or their rentability in the future. The increased property specific risks were taken into account in the cash flow calculations by raising the yield requirement or decreasing the long-term occupancy rate assumptions or decreasing the market rents.



In those Sponda's premises, which have new lease agreements, generally speaking the rents have not decreased compared to the previous rent level. However, during the fourth quarter rather few new lease agreements have been established and, therefore, based on this data, extensive conclusions cannot be drawn regarding the state of the rental market.

Catella Property Oy

Helsinki, 20 January 2010

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