

# STATEMENT

Evaluation of the fair value of Sponda Oyj's  
investment properties on 31 March 2009



CATELLA PROPERTY GROUP

**SPONDA**



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## 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 has 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, 31 March 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.

## MARKET SITUATION

### Economic Situation

The outlook for the economic situation dimmed further at the beginning of the year both globally and regarding Europe and Finland. Forecaster's views on economic development are various, but the common denominator for them is a sharp descent.

In March the IMF estimated in its economic forecast that the world economy will decline by 0.5 – 1.0 percent in 2009. According to the IMF's estimation the economy will diminish 2.6 percent in the USA and 3.2 percent in eurozone.

Finland's most important trading partners have descended into recession, which caused a significant decline in Finland's exports: in January exports were approx. 36 percent lower than a year ago. Import were reduced by almost the same amount. This directly affects the Finnish national economy, because the proportion of exports in the GDP was 46 percent last year. In the first quarter several domestic forecasters have reduced their forecasts regarding Finland's economic development. The table below shows the forecasts given in March 2009.

FORECASTER - March 2009	GDP 2009	GDP 2010	EXPORT 2009	INFLATION 2009 - 2010	UNEMPLOYMENT RATE 2010
Pellervo Economic Research Institute, PTT	- 3,5 %	- 0,5 %	-12,0 %	0,5 - 0,5 %	9,6 %
OP-Pohjola-group	- 5,0 %	- 0,5 %	- 15,0 %	0,9 - 1,1 %	9,4 %
Tapiola Bank	- 4,0 %	- 1,1 %	- 9,0 %		9,2 %
The Bank of Finland	- 5,0 %	- 1,1 %	- 19,6 %	0,5 - 1,1 %	9,2 %
Ministry of Finance	- 5,0 %	-1,4 %	-17,4 %	0,9 - 1,1 %	9,5 %
The Research Institute of the Finnish Economy, ETLA	- 6,5 %	0 %	- 22,0 %	1,0 - 1,7 %	10,0 %

The confidence indicators reflecting the economic situation of different industries have stayed low. The volume of orders in the manufacturing sector reached its all-time lowest level since the inception of the survey in January 1993 and production is expected to decrease further. In the construction sector the confidence indicator slipped in March to an extremely low level; the order books are thinner than normal and a major workforce decrease is expected over the next few months. Also in the service sector the confidence indicator continued to decline in March. Sales growth turned into declined and sales are expected to fall further in the next few months.

The weakening economy has also affected the labour market in the first quarter. In February 2009 the unemployment rate was 1.2 percentage points higher than one year ago, meaning an unemployment rate of 7.6 percent. There were 200,000 unemployed in February 2009, i.e. 33,000 more than in February the year before. The Ministry of Finance forecasts that the amount of unemployed people will increase by 70,000 this year and that the unemployment rate will rise to nine percent. It is estimated that the number of furloughed employees has grown to approx. 75,000.

Consumers' confidence in the economy has recovered slightly, but still remains weak. Confidence in the economy has been negative since October 2008 and before that, during the recession years of the early 1990s. The fear of personal unemployment continued to increase in March.

The forecasts are still inconsistent regarding when the bottom of the recession will be reached. Worldwide resuscitation actions are believed to have an effect at the end of this year or latest at the beginning of next year. Banks are pressured into cleaning the subprime loans off their balance sheets, which would firm up the situation in the loan market and create a prerequisite for the recovery of the finance sector. Finland's real economy has been in a sharp descent in the first quarter and the economy will not recover until the situation in the finance market has begun to look brighter. On a global level the upturn of the economy is believed to begin in the United States and in Europe the

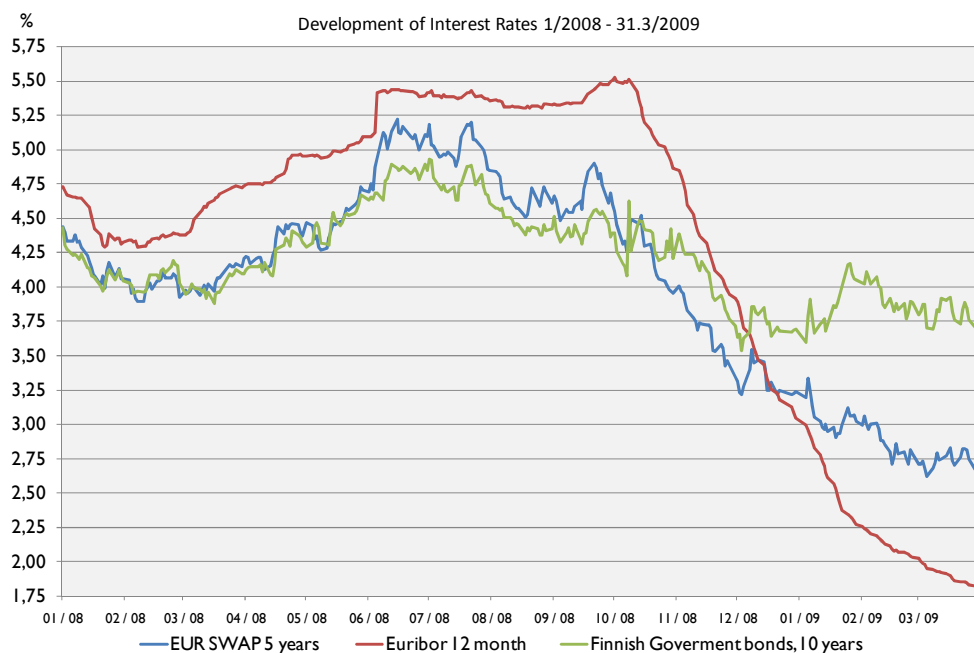
positive development will follow with delay. The recovery of the real economy will create a final prerequisite for the positive development of the real estate investment market.

When looking at the economic situation from the perspective of the property market it is important that companies have confidence in the future and that the employment figures will remain at a high 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.

## Finance Market

Central banks and governments of various countries have continued their resuscitation actions for supporting the economy, with delayed effects on the market. By the end of March, the European Central Bank had lowered its benchmark rate five times since last October and in March the rate was 1.5 %. At the beginning of April, the ECB lowered the rate again to 1.25 %, but this was a smaller drop than the market expected. A common expectation is that the ECB will further lower the benchmark rate this spring.

The figure below describes the development in 1/2008 – 3/2009 of the Euribor (12-month), Finnish Government bond (10-year) and EUR SWAP (5-year) which is commonly used as the interest rate base for real estate investment loans.



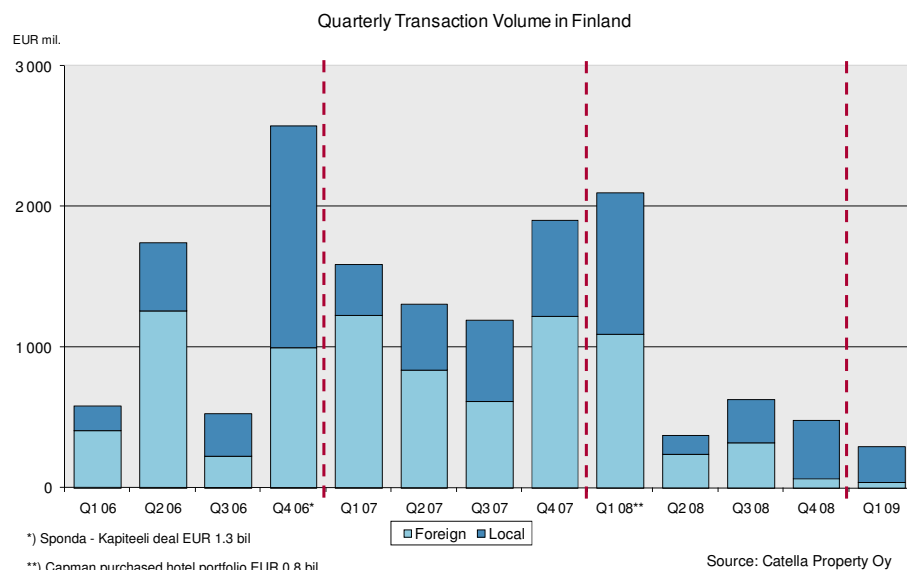
Source: Nordea and the Bank of Finland

The general decline of the interest rate level has not brought any concession to real estate investment financing, because the availability of loans is still a major issue. Banks have to pay special attention to their own solvency and the bank-to-bank lending market is still not functioning normally despite of the massive supportive actions by governments. However, a positive sign is the decline of 3-month Libor interest rates, which reflects the recovery of the confidence between banks. The financial resources of banks are still limited and financing real estate investments is not the primary focus in this market situation. Especially, the problems related to banks' long-term fund-raising are reflected in property investment financing.

The refinancing of loans, which were taken during the boom, will be a larger topical issue in 2011 – 2013. If the situation in the finance market is not substantially better at that time, 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. This is a risk factor in the market and it postpones the recovery of the real estate sector.

## Investment Market

The property transaction volume in 2008 was approx. EUR 3.7 billion, which is almost 40 % lower than in the previous year. The volume continued to decrease in the first quarter of 2009 to the level of approx. EUR 300 million. The only notable transaction made by a foreign buyer was the Summa Paper Mill located near Hamina. It was bought by Google, which will use it as a Server Center. In other transactions the buyers were domestic institutional investors.



Property investment volumes have dropped all over the world and Finland is no exception in this respect. The amount of capable and willing investors has decreased significantly compared to the prevailing situation a couple of years ago. In a recession it is typical that international investors withdraw from small markets like Finland. In addition, Finland's attractiveness as a property market area is weakened by the fact that in Europe's larger markets like in Germany, France and England there are more interesting investment opportunities available with fairly attractive prices.

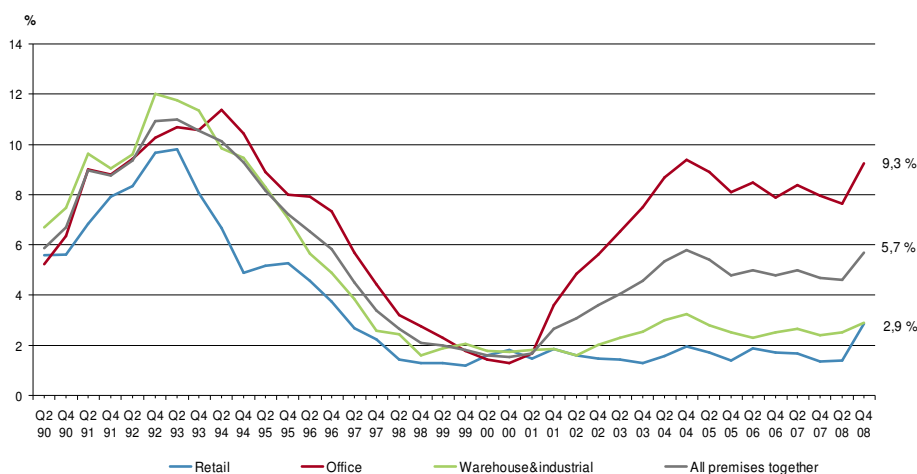
Some domestic pension funds / insurance companies would be interested in purchasing prime-properties, but the supply of prime-objects has been low. There is still a rather wide spread between buyers' and sellers' views on pricing.

## Letting Market

The letting market operated rather well last year, but changes are expected in 2009, when the problems in the real economy affect the tenants' economic situation. The vacancy rate is expected to continually increase especially in office premises. Due to the increasing supply, the upturn trend in rental levels has come to an end and the rents will turn downwards this year, at least in some sub-markets.

According to Catella's survey made at the turn of the year, vacancy rates increased in all property types during the last half of 2008. In the Helsinki Metropolitan Area the average vacancy rate of all premise types at the end of January 2008 was 5.7 % (Q2-2008: 4.6 %). The amount of vacant space increased least in industrial and warehouse premises (2.5 % => 2.9 %). The largest increase in vacancy rate took place in office premises (7.7 % => 9.3 %)

VACANCY RATE IN HELSINKI METROPOLITAN AREA



Source: Catella Property Oy

In 2008 the new construction production of office premises was approx. 244,000 sqm and under construction there is still approx. 130,000 sqm of which some 74,000 will be completed in 2009. It seems that the demand for office premises will not correspond with the amount of new construction production. Catella forecasts that the vacancy rate of office premises will increase to 12 percent in 2009.

## THE RESULTS OF THE VALUATION

The date of valuation for Sponda Oyj's investment properties is 31 March 2009.

The weighted average net yield requirement in the cash flow calculations was 6.84 % (31 December 2009: 6.73 %) for the entire investment property portfolio. The initial yield for the investment property portfolio inspected by Catella was approx. 6.94 % (31 December 2008: 6.8 %). The economic occupancy rate of Sponda's whole Finnish property portfolio was 88.8 %. The figure also includes 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 70 percent of the value of the HMA properties and their proportion of the entire office and retail portfolio is approx. 60 %. The office and retail portfolio includes one new shopping centre located in Ylöjärvi (Elovainion Kauppakiinteistöt, 24.065 m<sup>2</sup>); no divestments were carried out from the portfolio in the first quarter of 2009.

The cash flow yield requirements in the office and retail property portfolio were raised depending on object-specific features by 0 - 50 basis points compared to the previous quarter's figures. In one property the yield requirement decreased 20 basis points due to the improved rental situation. The weighted average net yield requirement in the cash flow calculations was 6.53 % for the entire portfolio (31 December 2008: 6.41 %). However, the initial yield for the portfolio inspected by Catella was higher, approx. 6.94 %. The economic occupancy rate of office and retail properties was approx. 90,5 % (the figure also includes trading properties). The economic occupancy rate of shopping centres included in this portfolio was 97.8 %.

## 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 first quarter of 2009 two objects were sold off the logistic portfolio (Kymen Logistiikka, 9,183 m<sup>2</sup> and Moreenikuja 2, Oulu, 6,164 m<sup>2</sup>). New acquisitions were not made in the portfolio.

The cash flow net yield requirements in the logistics property portfolio were raised depending on object-specific features by 0 - 40 basis points compared to the previous quarter's figures. The weighted average net yield requirement in the cash flow calculations was 8.02 % for the entire logistics property portfolio (31 December 2009: 7.86 %) The initial yield for the logistics property portfolio inspected by Catella was approx. 6.95 % while the economic occupancy rate was approx. 77.8 %. 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 occupancy rate is approx. 87.9 % and initial yield approx. 8.8 %.

Some properties have unused building right, but the value of the building right is not taken into account when calculating the aforementioned initial yields.

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