STATEMENT

Evaluation of the fair value of Sponda Plc's investment properties on 31 December 2019

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

Sponda Plc (hereinafter referred to as "Sponda" or "the Company") conducts its own internal calculation of the fair value of the investment property portfolio of the Company twice a year by using a ten-year cash flow model as the valuation method. Catella Property Oy (hereinafter "Catella") audited Sponda's internal property assessment process and calculation methods in the autumn 2007 and 2015 and again in March 2017 when Sponda switched to a new cash flow model, and confirmed that these fulfil the IFRS 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 2019, 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 International Financial Reporting Standards (IFRS 13) and in International Valuation Standards (IVS 104, 90.1) 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.*" Investment properties' ***Fair Value*** is generally consistent with ***Market Value***.

Catella inspected the data regarding assumptions about market rents and occupancy rates and enquired as to 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 Market approach (Comparable Transaction Method) as a verifying method when analysing the fair value of the properties.

Development properties, trading properties and properties located in Russia are not included in Catella's inspection, nor has Catella inspected the value of the unused building rights 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 on leasable area, 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, Global Standards (July 2017) and the International Valuation Standards (IVS 2017). 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 valuation experts 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 2019
- Danske Bank, Economic trends and finance market, December 2019

As an overview of the economic climate, it can be stated that the global economy slowed down in 2019. However, economic downturn took place without acute crises in major economies and 2020 is starting cautiously. Emerging signs indicate that the economic situation is stabilising, but indications of a decent start to a new boom are missing. The trade war between the United States and China will continue to headline in 2020, despite the progress made at the turn of the year. In Europe, Brexit is finally moving forward, which contributes to reducing uncertainty.

In emerging Asian countries, the mid-term outlook for economic growth is still uncertain. **The Chinese** economy grew 6.6 per cent in 2018, but in the second quarter of 2019 growth decelerated to 6.2 per cent and in the third quarter further to 6.0 per cent. The last time Chinese economic growth was as slow in 1992. However, the lack of an autonomous statistical authority makes it difficult to assess China's economic growth. Growth was sustained by the service sector and consumer demand. The import duties set by the US government were a significant reason for the weakening of the Chinese economy in 2019. Trade negotiations took a step forward in December and the first-stage trade policy agreement is expected to be signed in January 2020. The first-stage agreement will mean that some of the import duties planned or implemented will be lifted. This does not yet solve the big issues behind the trade war, but it is a step in a positive direction. China is one of the most significant players in the global economy and therefore its economic development has a broad effect on the situation of other emerging economies in Asia and in Western countries, as well. During the last decade, China has been responsible for around one third of all global economic growth.

Economic growth **in India** in 2018 was 7.2 per cent, which was the strongest among the world’s large economies. However, growth decelerated in the first quarter of 2019 to the level of 5.8 per cent and in the third quarter further below 5 per cent. As a result, China took back its leading position as the fastest growing economy in Asia. The main reasons for the slowdown of India’s economic growth were the decrease of private consumption and investments. The central bank has responded to this deceleration by decreasing the steering rate four times during this year. However, according to Danske Bank, the economic slowdown in India is mainly cyclical and is expected to accelerate to the level of 7 per cent in 2020.

The Japanese economy is export-driven and the decline in Chinese export demand in particular has depressed the economy. However, Japan has reached a new trade agreement with the United States. As the population ages, the export industry’s success will be a prerequisite for economic growth in the future. Japan is still one of the biggest economies in the world, but due to the ageing population and the modest pace of reform, its role will decrease in the future. The country would need more manpower or more robots for both industry and the service sector.

In the United States, the economy continues its longest period of continuous growth since the Second World War. However, average growth has been more moderate than in previous boom periods, which has contributed to longer-term growth. In the third quarter of 2019, the annual GDP growth rate was as 2.1 per cent. Tax cuts supported the economy in 2019, but by 2020 the effect will begin to fade. Exports and investment almost stagnated, but private consumption rose sharply. Increases in government spending have also boosted GDP. Consumer confidence remains high, fuelled by good employment.

The unemployment rate has remained low, and in December it stood at 3.5 per cent, which is the lowest figure since 1969. Companies tell that the availability of a skilled workforce is challenging, but on the other hand, recruitment has slowed down, especially in industry. Even the United States is not immune to the trade war. One sign of this is the ISM Purchasing Manager’s Index, which has fallen sharply in 2019, both in industry and partly in services, too. The Industrial Purchasing Managers' Index has been below 50 points since August, indicating a decline in industrial output. Despite the decline, the Services Purchasing Manager Index has stayed above 50 points. However, the US has much better possibilities of fighting the recession with monetary resuscitation than Europe, because interest rates were raised during recent years. All in all, the Fed managed to raise target funds rate nine times after the end of 2015. The Fed changed its interest rate policy in 2019 by lowering the target funds rate three times; the rate level is now 1.5–1.75 per cent

President Trump’s decision to time out tax reduction in a mature phase of the economic boom has increased the federal budget deficit remarkably in spite of the boom and decreased unemployment. Earlier in history, a boom has caused a decline in the deficit. Later, in a more difficult cyclical situation, budget deficits restrict the scope of resuscitation and may lead to fiscal tightening.

In the eurozone, the economic situation weakened markedly in 2019. In the third quarter, the GDP growth was 0.2 per cent quarter-on-quarter and the annual growth was 1.2 per cent. Growth has declined extensively, and weak net exports dragged down GDP. Growth was mainly driven by private consumption. However, as a whole, growth in the eurozone will remain modest in the near future. Danske Bank forecasts that GDP growth in the eurozone will be 0.9 per cent in 2020 and 1.3 per cent in 2021.

In addition to its own challenges, the eurozone is suffering the consequences of the China-US Trade War. The indirect effects have been even greater than the direct effects on the main parties of the dispute. The difficulties of the European economic engine, Germany, started already in the autumn of 2018 in the automotive industry but have since spread to the whole industry. The weakness of the German automotive industry continued in late autumn and the transition to low-emission car models is not taking place without risks. On the other hand, the outlook for domestic demand in Germany is reasonably stable. The boom in construction continues, and the outlook for households is supported by rising wages and good employment. Germany is Finland's most important export partner, so its economic outlook also affects Finland.

Despite the weakened economic situation in the eurozone, none of the member states drifted into recession in 2019, but the risks of it have increased. Eurozone’s confidence indicators and Purchasing Manager indices indicate that industry's challenges continued in late 2019 and consumer confidence has fallen from its peak. On the other hand, low inflation and low interest rates support consumer spending and, in many countries, fiscal policy is likely to turn to a more resuscitating direction. The implementation of

Brexit as a contractual divorce will reduce uncertainty and may be hoped to facilitate investment decisions.

The unemployment rate in the eurozone still remained at 7.5 per cent in November. The figure has not decreased during the past few months, but there is still a background of several years of continuous decline in unemployment from above 12 per cent in 2013. However, country-specific differences in unemployment vary widely. The lowest unemployment rate is 2.2 per cent in the Czech Republic and the highest 16.8 per cent in Greece.

According to Statistics Finland’s revised data, **Finnish GDP** increased only 1.7 per cent in 2018 due to weaker than expected development in the last quarter.

According to Statistics Finland's preliminary data, the Finnish economy grew faster than forecasted in the third quarter of 2019: it grew by 0.7 per cent quarter-on-quarter and working-day-adjusted GDP grew by 2.2 per cent compared to the third quarter of 2018. The graph below shows the year-on-year change in GDP between 2018 and Q3-2019.

Despite stronger-than-expected growth rates for the second and third quarters of 2019, the growth outlook remains weak and growth is expected to slowdown in 2020 as a result of global economic uncertainties. However, by 2021, the global economy is expected to recover and boost also Finland's exports and investments.

In 2020 growth will be largely driven by domestic demand and net export and investment developments are expected to remain subdued. By contrast, private consumption growth is expected to accelerate slightly, thereby counterbalancing the cyclical situation. On the investment side, residential construction continues to decline, but on the public sector, construction continues.

In particular, the weakened corporate confidence is indicating a change of direction. The strongest fall in business expectations is in an industry where confidence has fallen well below average. So far, industrial production figures have remained moderate and the old order book has provided security. Domestic industrial enterprises are increasingly being affected by the global economic weakness, and the order backlog has slowly but surely shrunk.

Consumer confidence has continued to decline and, in the autumn, confidence in own economy has begun to falter. The threat of own unemployment is also estimated to have increased, though clearly less than the overall unemployment situation. Right now, consumer confidence is being closely monitored as it is hoped that private consumption will carry the economy.

Exports started to grow strongly at the end of 2016 and growth continued in 2017 when the export volume increased 7.5 per cent. However, in 2018 the development of exports was weaker than anticipated when the growth rate decelerated to 1.1 per cent. In the third quarter of 2019, export volume increased by 5.3 per cent year-on-year. Growth was particularly driven by exports of services.

The unemployment rate reached the peak of this cycle at 9.5 per cent in the summer 2015, but it has been on the decrease since then. According to Statistics Finland, the trend in the unemployment rate, which takes into account seasonal variations, was 6.7 per cent in December 2019. According to Statistics Finland, the number of unemployed people in December 2019 was 164,000, which was 18,000 more than one year ago. The Ministry of Finance’s forecast in December predicted that the annual unemployment rate would be at the level of 6.5 per cent in 2019 and fall to 6.4 per cent in 2020, and that an unemployment rate remains at a level of 6.4 per cent in 2021. As the unemployment rate has fallen relatively low, a large proportion of the unemployed are more difficult to employ.

The forecasts given by domestic forecasters in December 2019 are presented in the following table.

FORECASTER - December 2019	GDP 2020 => 2021	EXPORTS 2020 => 2021	INFLATION 2020 => 2021	UNEMPLOYMENT RATE 2020 => 2021
Danske Bank	+ 1.0 % => + 1.4 %	+1.7 % => +3.0 %	+1.2 % => +1.5 %	6.7 % => 6.5 %
Municipality Finance	+ 0.9 % => + 1.0 %	+1.0 % => +2.0 %	+1.3 % => +1.5 %	6.5 % => 6.4 %
Bank of Finland	+ 0.9 % => + 1.1 %	+0.9 % => +2.2 %	+1.2 % => +1.4 %	6.7 % => 6.6 %
Ministry of Finance	+ 1.0 % => + 1.1 %	+1.9 % => +1.9 %	+1.3 % => +1.6 %	6.5 % => 6.4 %

Positive development in the general economic climate during the past few years and a low interest rate level have created a good operational environment for the property investment market. Properties are seen as a desirable asset class because interest rate instruments offer historically low returns and the risks in the stock markets have increased and been partly realised as well.

In the future, the slowdown in economic growth may be reflected in a slight decline in activity in the letting market and increased caution. In the second half of 2019, the vacancy rates for office premises in the Helsinki Metropolitan Area remained mainly unchanged. The amount of vacant office space in the HMA is still approximately one million square metres. Despite this, office construction remains busy: eight new projects were launched in 2018 and approximately 51,000 m^2 of new office space was completed, which is, however, clearly less than in the previous year (71,000 m^2). In December 2019, approximately 200,000 m^2 of new office space was under construction. Eight new projects were launched in 2019. The volume of retail construction in the Helsinki Metropolitan Area has fallen significantly following the completion of major projects during the autumn (Mall of Tripla, Phase III of Ainoa and Helsinki Outlet in Vantaa). In December 2019, 73,000 m^2 of retail space was under construction, of which Lippulaiva shopping centre accounts for approximately 44,000 m^2.

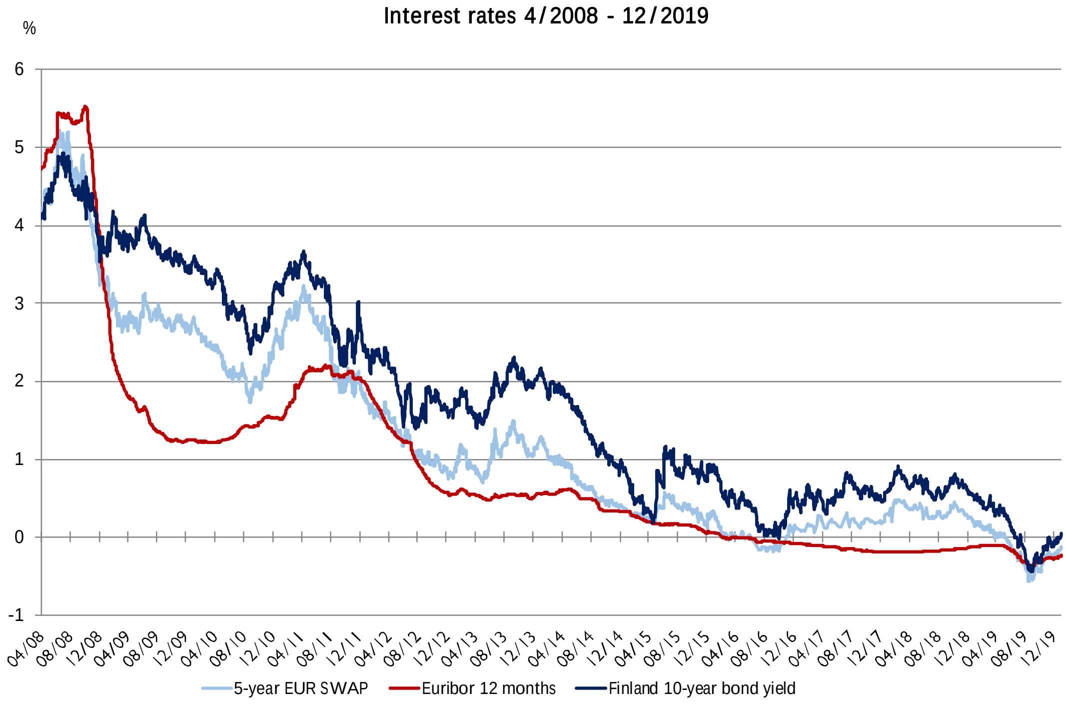
INTEREST LEVEL AND FINANCIAL MARKET

At its meeting in September 2019, the European Central Bank decided to decrease the deposit rate 10 basis points and keep other key interest rates unchanged, i.e. the steering rate is 0.00 per cent, deposit rate -0.50 and the marginal lending rate 0.25 per cent. The Governing Council of the ECB expects the key interest rates to remain at or below current levels until the inflation outlook over the projection horizon returns firmly close to (but below) 2 per cent, and developments are also consistently reflected to core inflation.

The bond purchase program has again made new purchases as of November 1, 2019: net purchases of assets will amount to EUR 20 billion per month. The Governing Council expects purchases to continue for as long as is necessary to reinforce the stimulative effect of the key interest rates and to end slightly before the key interest rates are raised.

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 the 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 been below zero for a long time.

The chart below illustrates the development of the (12-month) Euribor after 2008, 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 increased somewhat from its record-low level in September (-0.55 per cent) and was at a level of -0.14 per cent at the end of December. The 12-month Euribor is still below zero (-0.249 per cent).

According to the **Swedish CREDI survey conducted by Catella in December 2019**, access to credit has weakened compared to the situation six months ago. The main index has slightly decreased to a figure of 49.5, while in June it was 50.8. Before this, the main index has increased in four consecutive quarters. The current situation index is 53.0, but the Expectations index is 45.9, which means that the situation in the credit market is expected to worsen over the next three months. In the near future, credit margins are expected to increase, which is the main factor weakening the expectation index. As in many years before, banks and companies have different views on the financial market situation: companies generally have a more positive view of the financial market, while banks have a more negative view. In the third quarter, the average interest rate for listed property companies remained at 2.0 per cent.

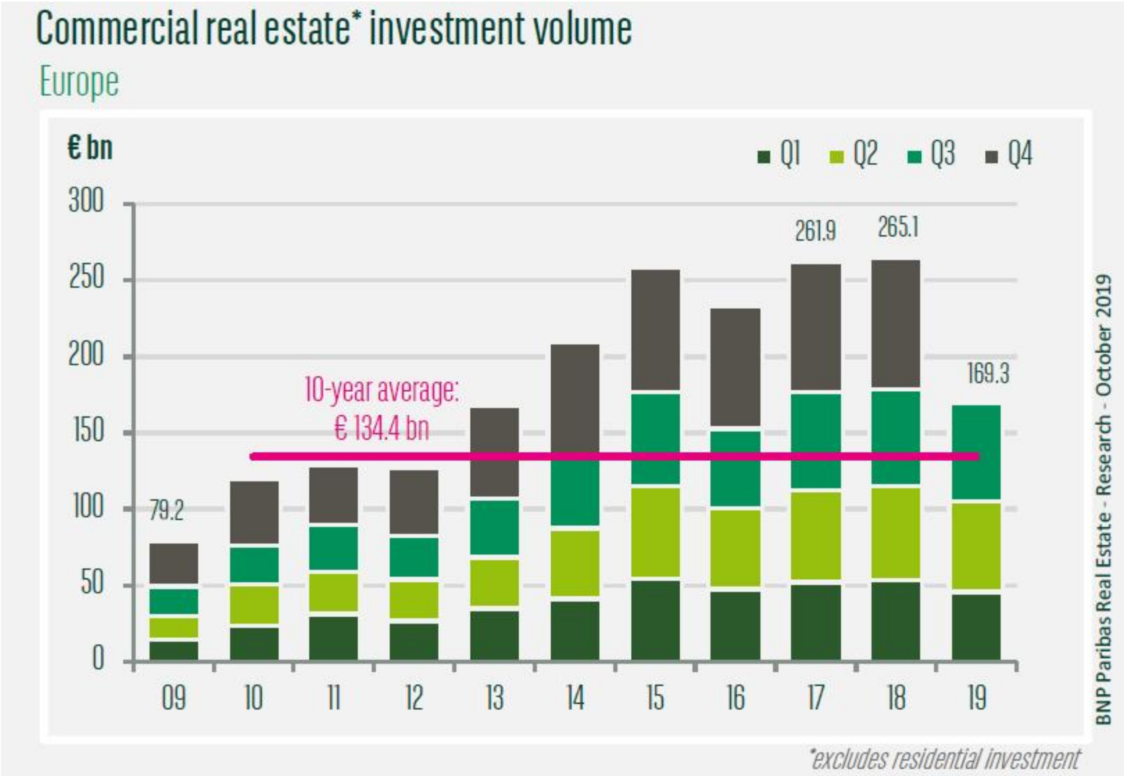
At least in the near future, the situation in the financial markets seems to remain favourable for real estate investments as an increase in interest rates is expected to move further in the future. Real estate allocation in banks' loan portfolios has increased in recent years, which might worsen the availability of financing for real estate investments in the future.

PROPERTY MARKET

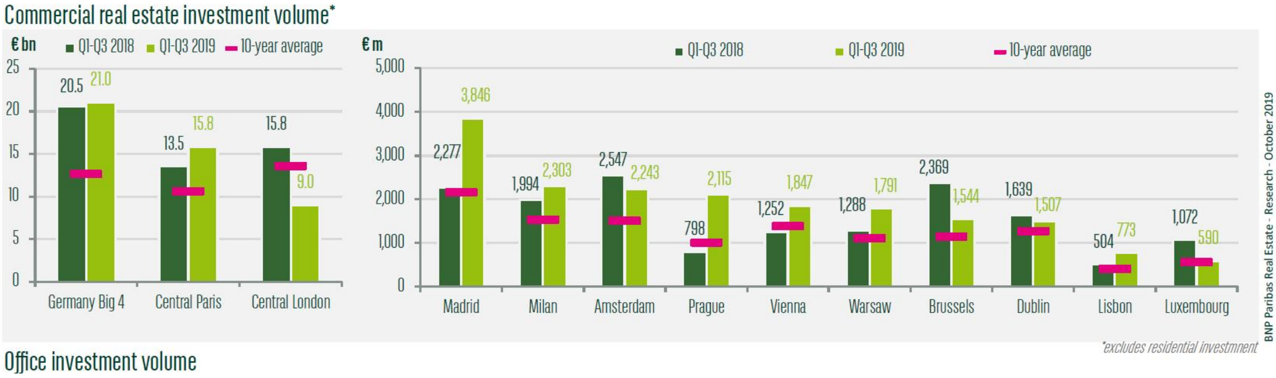
European Property Market Climate

Source: BNP Paribas

According to BNP Paribas, the total commercial real estate investment volume in Europe reached EUR 169.3 billion in the first three quarters of 2019, which is somewhat lower than the same period in 2018. Office properties accounted for the largest number of deals, representing 47 per cent of the volume. Investors are very cautious regarding retail properties, which is why the transaction volume for retail properties decreased 24 per cent compared to the same period last year. The volume of production and logistics properties also decreased by 10 per cent, but their volume was still at a good level given the two record years behind.



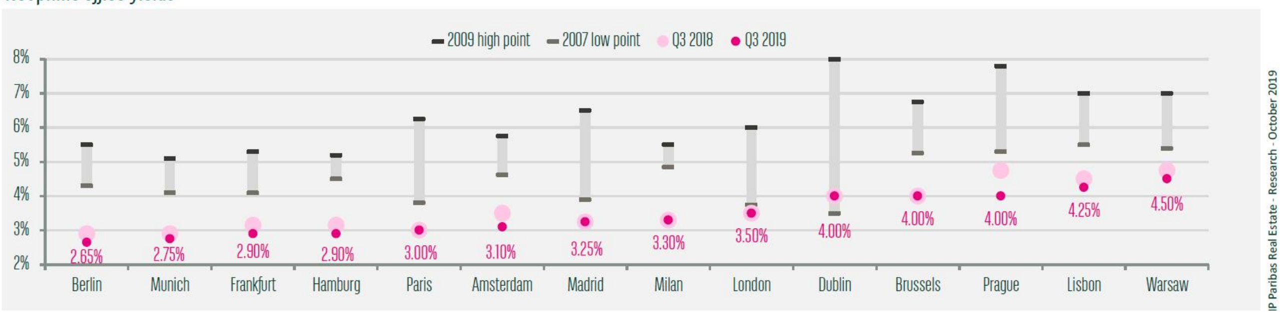
Paris was the busiest sub-market in Europe thanks to four large office property transactions. The transaction volume of the four largest German cities increased by 2 per cent. Berlin reached a new all-time high with volume up to 86 per cent. Similarly, Munich saw growth of 4 per cent and the volume almost reached record level of 2017. Volumes declined in Hamburg (-31 per cent) and Frankfurt (-39 per cent) due to lack of supply. In London, transaction volume continues to decline, reflecting widespread investor caution in the market.



Office investment volume

Office yields reached historically low levels at the end of 2018 and remained mainly unchanged during 2019. However, in some cities, yield requirements have continued to fall slightly; the highest yield requirement declines were seen in Prague (-75 basis points), Amsterdam (-40 basis points) and Hamburg (-15 basis points). In Frankfurt, Berlin and Munich, yield requirements fell by 5 basis points. The lowest prime yields for offices in the main German market areas are at 2.65 per cent in Berlin, 2.75 per cent in Munich, and 2.90 per cent in Frankfurt and Hamburg. After these, Paris will be at the 3.0 per cent level.

Net prime office yields

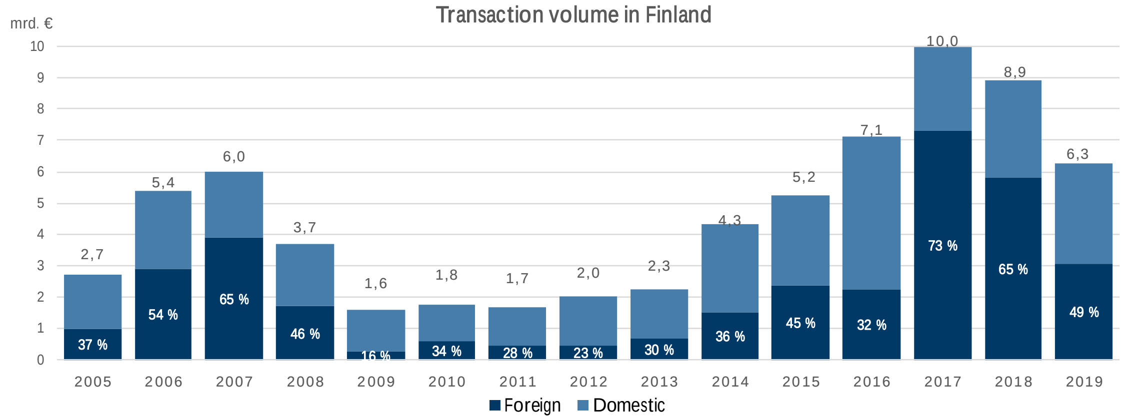


The Finnish Investment Market

The Finnish real estate investment market has been very active during the past five years. The transaction volume has fluctuated in the level of EUR 5-10 billion, compared to only EUR 1.5 to 2.5 billion in 2009-2013. During the 2006-2007 real estate boom, the highest annual levels were between EUR 5.5 and 6.0 billion. 2017 was the all-time record high of 10 billion in volume and in 2018 the transaction volume reached 8.9 billion euros.

In 2019, commercial real estate and residential portfolio deals totalled approximately EUR 6.3 billion. The decline was also seen in the total number of property transactions compared to 2018, which was the most active year of all times in terms of trade volume. Although the euro volume and trade volume decreased from the previous year, the market was still quite active in the big picture. The decline in volume is partly explained by the fact that no single billion-euro transactions were made in 2019, as in previous years.

According to Catella's follow-up data, there have been a total of fifteen transactions valued over EUR 100 million in 2019. There were also 22 transactions in the price range of EUR 50–100 million.



Among the transactions worth over EUR 100 million completed in the latter half of 2019, the following can be mentioned:

- Sponda / Blackstone sold an office and retail property located in Helsinki city centre at Aleksanterinkatu 19 to a German fund managed by Union Investment for approximately EUR 148 million. The property has a leasable area of approximately 8,300 m^2.
- Varma Mutual Pension Insurance Company sold the SOK headquarters property located at Fleminginkatu 34 in Vallila, Helsinki to Fleming Properties AB, a company established by Pareto Securities. The purchase price was approximately EUR 130 million. The property comprises approximately 41,000 m^2 of leasable space and nearly 500 parking spaces. The building will undergo a major renovation in the spring of 2020.
- Regenero, a joint venture of YIT and HGR, has agreed to sell three properties in Keilaniemi, Espoo, to an international investor. The agreement applies to the Accountor Tower, Keilalampi and the Keilaniemenranta pavilions in Espoo. The property-specific transactions will be completed in stages as construction works are completed. The Accountor Tower was due to be completed and transferred to the new owner in December 2019. Keilalampi and the Keilaniemenranta pavilions will be completed by the end of 2020, when their final transactions will also be completed. The purchase price was not announced, but it exceeds EUR 100 million.
- Technopolis Holding Plc sold its 60 per cent share of Technopolis Kuopio Oy to a minority shareholder, KPY Sijoitus Oy (KPY). Technopolis Kuopio properties have a total leasable area of nearly 70,000 m^2, and 17,000 m^2 of new leasable space is under construction. The purchase price was not announced.

In addition to the transactions mentioned above, there have been a few residential portfolio transactions of more than EUR 100 million in 2019:

- Starwood Capital Group, together with Avara, has acquired a portfolio of nearly 2,200 apartments comprising 73 properties in 16 cities across Finland.
- Lehto Asunnot Oy has agreed to sell a portfolio of 542 apartments to the German DWS Residential Real Estate Fund. Some of the assets are under construction and will be completed during 2019 and 2020.
- Construction company YIT entered into an agreement to sell ten tenement houses to be built to a new company owned by Ålandsbanken (60 per cent) and YIT (40 per cent). The houses under construction have a total of 537 apartments and will be completed between 2020 and 2021.

- LähiTapiola Asuntorahasto Prime Ky sold an apartment portfolio consisting of ten residential properties to OP-Vuokratuotto. The portfolio has a total of 547 apartments and 28,800 m^2 leasable area.

The interest of international investors in the Finnish real estate market has remained strong. In 2019, international investors made real estate investments worth about 3.1 billion euros in Finland, which corresponds to about 49 per cent of the whole transaction volume. However, their share dropped slightly from the previous years' peak. Foreign investors are particularly interested in prime assets. In addition, in 2019, international investors succeeded in making some significant housing portfolio deals.

When viewing the division of the volume by property type, most transactions when counted in euros have been made for office properties. The value of office property transactions was approximately EUR 2.6 billion, which corresponds approximately 42 per cent of the whole volume. The volume of office properties consists mainly of single property transactions. Larger office portfolios have not been sold, with the expectation of five office properties bought by Hemfosa. All of these properties are located in the Helsinki Metropolitan Area. The purchase price was approximately EUR 46 million and the leasable area of the portfolio was approximately 21,100 m^2.

Residential portfolios were the second largest property type measured by volume. The value of residential property portfolio transactions was approximately EUR 1.38 billion. The volume was lower than in the previous year, however, it was higher than the volume of retail and hotel premises. The breakthrough of international investors in the Finnish residential investment market, which began in 2018, continued in 2019. Foreign investors accounted for about 41 per cent of the total volume of residential portfolios.

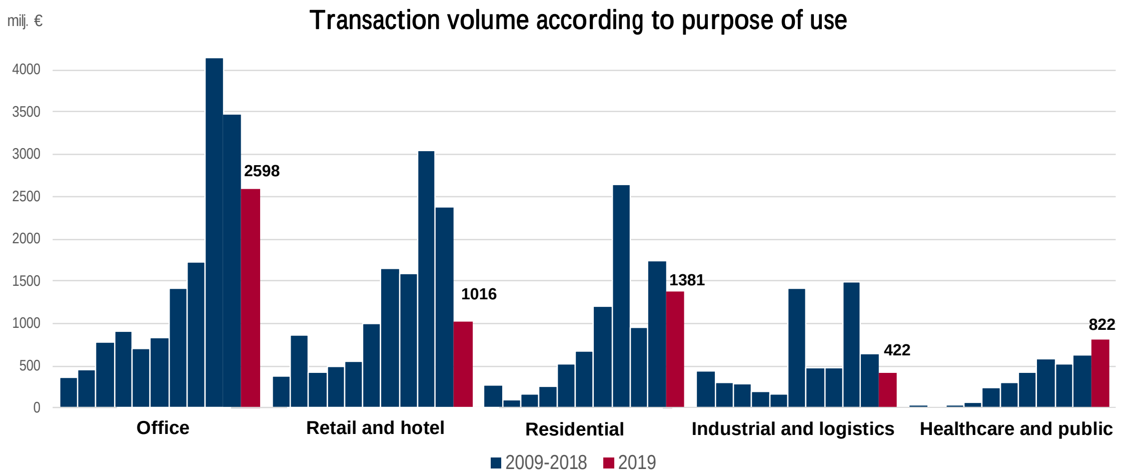
Retail and hotel properties thus lost their former second place standing to apartments and were the third largest type by volume with just over one billion euros. Retail property sales declined towards the end of the year, as already in mid-year the volume was EUR 840 million. Part of the reason for the decline in volume is that foreign investors' interest in retail properties has clearly declined. In 2019, the share of international investors in the volume of retail properties decreased significantly, being only 21 per cent, while in 2018 it was still 73 per cent and in 2017 up to 78 per cent. The volume of retail properties consists of many types of properties located all over Finland. Among the largest commercial real estate transactions in 2019, which took place in the first half of the year, the following can be mentioned:

- Citycon sold the Arabia shopping centre located in Helsinki and the Duo shopping centre located in Tampere to NREP. The purchase price was approximately EUR 77 million.
- The Nordic property investment company NREP sold four of its developed retail properties to eQ Retail Properties fund for approximately EUR 74 million. The sold assets consists of *K-Supermarket Niipperi* and *Bredis Laajalahti* in Espoo, the *Lielahti retail centre* in Tampere and local retail centre *Rajamäen Lähde* located in Nurmijärvi.
- NREP sold Dixi retail centre located in Vantaa Tikkurila to eQ Retail Properties fund for approximately EUR 66 million.
- Fastighets AB Esmero Retail Property sold five hardware stores (K-Rauta) located in Vantaa, Mikkeli, Rovaniemi, Iisalmi and Rauma to a Finnish private investor. The leasable area of the portfolio is approximately 28,000 m^2 and the premises are fully rented to Kesko.

- Fastighets AB Esmero Retail Property sold two K-Citymarket retail properties located in Hämeenlinna and Kajaani. The buyer was Corum Origin SCPI.
- Vontobel Sustainable Real Estate Europe, Quadoro Doric bought a retail property "Marble" located in a central downtown area of Turku. The property has leasable area of 10,180 m^2 and it partly includes office space.

The volume of public and healthcare properties was approximately EUR 822 million, which is all-time record volume in this space category. A significant share of the volume consists of three large deals, the largest of which was the portfolio of 48 properties (EUR 142 million) sold by the abovementioned Special Investment Fund eQ Care. The second large portfolio transaction was the sale of eight care and hospital properties to Hemsö Fastighets AB by the City of Turku for approximately EUR 130 million. The third transaction in this category concerns the properties (3) sold by the Aalto University Foundation in Otaniemi, Espoo. The buyer was eQ Care Fund.

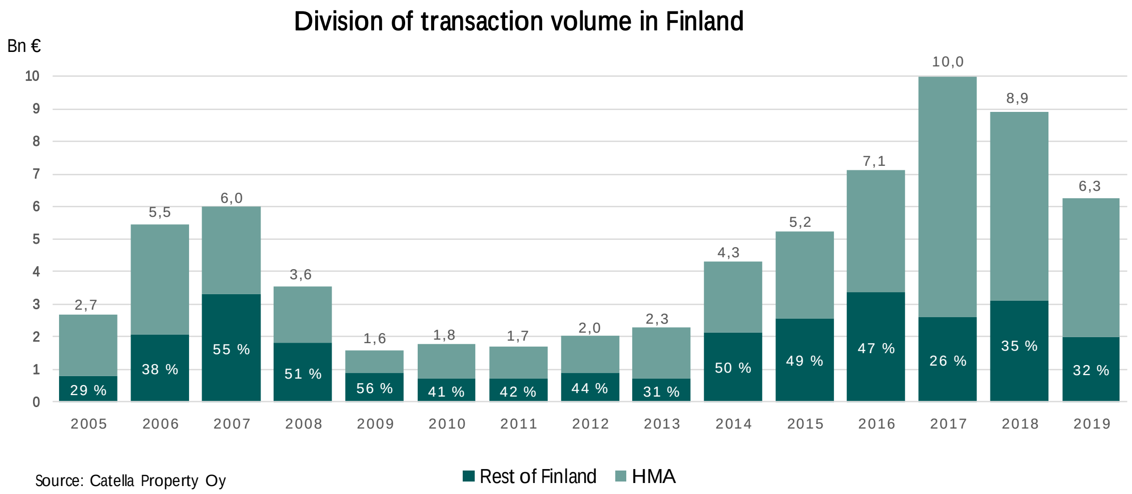
Modern logistics properties would also be interesting investment objects provided that the premises are rented with long leases, but these are seldom available on the market. The largest transactions in 2019 were the sale of Onninen's logistics centre (40,000 m^2) located in Hyvinkää to NRP and Wifast. NRP also bought from Maskun Kalustetalo Oy a logistics centre located in Mäntsälä; the leasable area of this property was 19,700 m^2. Construction company YIT agreed in October to sell three logistics properties under construction in Vantaa to a foreign investor. The total area of the properties to be sold is 47,300 m^2. Otherwise, the transaction volume of industrial and logistics properties consisted of rather small individual transactions and the total volume remained at a moderate level of EUR 422 million.



In addition to international investors, many domestic funds were also very active on the buying side in 2019. For example, special investment funds managed by Aktia, Trevian, Evli, eQ and Elite Alfred Berg invested actively in office and retail properties in particular.

During 2019, real estate investments were also perceived to carry risks, when real estate fund company Icon Corporation and real estate investment company Huhtanen Capital went bankrupt.

When viewing the division of transaction volume between the Helsinki Metropolitan Area and the rest of Finland, the position of the HMA as the most attractive market has strengthened. In 2019, the Helsinki Metropolitan Area accounted for 68 per cent of the transaction volume, which corresponds to approximately EUR 4.2 billion. The lower total volume in 2019 was also reflected in the rest of Finland. The transaction volume in Finland outside the HMA saw a clear decline to EUR 2.0 billion from the previous year's level of EUR 3.1 billion. However, there is a growing interest in properties located in growth centres due to the fact that yield levels in growth centres are clearly higher than in the HMA. However, the growth of transaction volume in growth centres is restricted by the fact that the supply of interesting investment opportunities is more limited than in the Helsinki Metropolitan Area. The interest of foreign investors is mainly focused on properties located in Tampere and Turku.



A record low interest rate level has, for its part, affected the increase in property market volume, and no change is expected to be seen in the interest rate level, at least in the near future. There is a lot of equity on the market searching for investment opportunities, and properties are considered an attractive asset class.

Finland's commercial property market has developed positively for several years in terms of transaction volume, which has remained at a good level, decreased yields and increased rental levels. Expectations at the end of 2018 regarding halting the decline in yield requirements or even turning around the dwindling buying interest proved to be premature. The reason for this has been the fact that expectations of a rise in general interest rates shifted further in the future and financing for property investments was still available on favourable terms during 2019. The interest in core properties in particular continued to be strong. While the supply of these assets in the market is clearly lower than the demand for them, this means that a wider range of properties are accepted as core assets and their yield requirements were subject to downward pressure in 2019.

Yield requirements

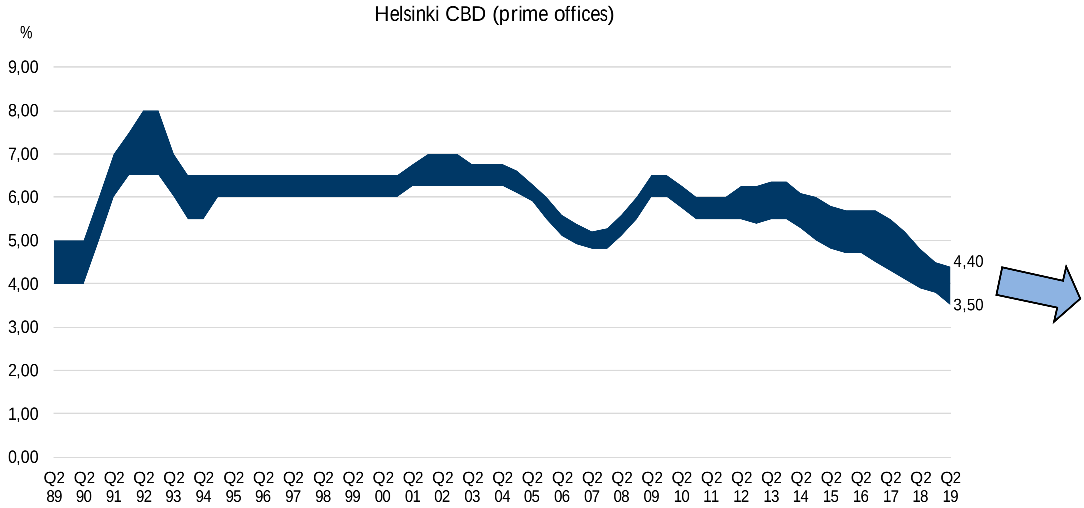
The ECB continues to pursue mild monetary policy and keeps interest rates low for the time being. While general interest rate level continues to remain low, and bond investments still do not offer particularly attractive returns. This increasingly directs capital to the investment market. For their risk / return profile, real estate investments are positioned between bond instruments and listed equities and they are an attractive alternative to bond investments. The share of property investments in investors' allocations is likely to remain strong in the future as well and prime properties are being sought out to offer stable and moderate return on invested capital.

Due to a scarcity of investment opportunities in the market that fulfil the criteria, intense competition for them has further decreased the yield requirements of prime properties in the second half of 2019. Due to the limited supply of prime investment objects, investors' interest has widened to well-located B-class properties as well, but their yield requirements are clearly higher than core properties.

Catella's opinion on the yield requirement regarding Helsinki CBD prime office properties in June 2019 was in the range of 3.5–4.4 per cent. In cases where properties are rented with long leases, the yield requirements could be 0.1–0.7 percentage units lower than those mentioned above. In the second half of the year, the yield requirement has further decreased by approximately 20 basis points.

In the main Central European markets, the yields for prime properties have sunk to the level of 3 per cent, and in Germany's largest cities even slightly below that. The gap between prime yields between Helsinki and Stockholm has traditionally been 0.5–1.0 percentage units, but by 2019 the yield gap has shrunk to non-existent. During 2019, transactions involving the prime properties in the Helsinki CBD in particular have been carried out at record low yields. In other good locations, competition for the best assets has also decreased yield requirements. Catella's opinion on the development of yield levels is based on closed deals, the outlook for the general economic situation, 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 Q2-2019.** The arrow points to a trend in the second half of the year.



* Long leases currently decrease office yield by 0,1 – 0,7%-units.
* New construction projects are excluded

Due to the difficulties in retail trade, the yield requirements of Helsinki CBD prime retail properties are higher than the prime office yields. Catella's opinion on the yield requirement regarding the Helsinki CBD prime retail properties in December 2019 is as much as 1.1 percentage units higher than for office premises. In the second half of 2019, office yields have still slightly decreased, but retail yield instead remained unchanged, which means that the yield gap between Helsinki CBD retail and office premises has further widened compared to the situation at last summer. Investors see risks related to retail premises, especially in the rental market, because a great deal of retail space was completed recently (e.g. the shopping centres Tripla and Redi) and webstores are taking their portion of the sales from traditional stores.

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 5.7 per cent, or even lower if the property has a long lease agreement with reliable tenant. The yield requirements of older industrial and warehouse properties are clearly at a higher level, and the investment interest towards them is rather weak. However, a few new domestic investors have recently entered the market, focusing specifically on older, higher-yield production and warehouse properties.

Letting Market

The letting market of commercial premises was active in 2019 as in the previous two years, but in the future companies are likely becoming more cautious when the outlook for the general economy deteriorates, and decisions on renting new premises are carefully considered. Office rents in Helsinki CBD continue to rise, but the pace is slower than in the previous couple of years. The KTI Office Rent Index for the Helsinki CBD increased by 0.4 per cent in the period September 2018 to September 2019. At its best, the growth rate has been at a level of 6-7 per cent in 2017-2018. However, Helsinki CBD is still the most attractive sub-market in the Helsinki Metropolitan Area's office market. The rental levels of new office agreements have increased also in the other Helsinginniemi area outside the Helsinki CBD and in other good office districts in the HMA, like in Ruoholahti, Keilaniemi and Leppävaara. In general, however, rents have fluctuated in key office sub-markets in the HMA and regional disparities remain high.

Tenants' requirements regarding the quality of premises have increased, particularly in the CBD of the Helsinki city centre. Attractive and comfortable office premises are key in recruiting competent personnel and therefore companies are willing to pay a fairly high rent for modern, high-quality premises that are in good condition and have an attractive location. On the other hand, the demand for outdated offices with a poor location is weak. As a new trend in the office market is for communal co-working premises, they respond to the demand for office rentals, which are needed to satisfy new ways of working.

In Helsinki, prime office rents are clearly lower than in Stockholm but, on the other hand, they are higher than in Berlin, Hamburg, Brussels, Copenhagen and Amsterdam, for instance. However, in the Helsinki Metropolitan Area, the range of office market rents is quite broad. The gross market rent for the best premises in the Helsinki CBD is at a level of 35–38 €/m^2/month and quotations for smaller premises are at the level of 40 €/m^2/month. However, a typical rent level for accustomed but modern offices in the Helsinki CBD is at a level of 30–35 €/m^2/month. There are also outdated and modest-quality offices in the CDB, so this sub-market has also become polarised into good and worse properties, which means that properties with lower rent levels can be found in good locations as well.

Helsinki Centre (excl. CDB) has a lower office vacancy rate and the reason for the attractiveness of this area is lower rental levels than in CBD. When moving a bit further away from prime locations, office rents may decrease by 5–10 €/sqm/month, meaning a level of 23–28 €/sqm/month and still the location is in the city centre.

In some office sub-markets outside the Helsinki city centre, the gross rent level remains below 20 €/m^2/month. On the other hand, in the same area, the office rent level in new buildings are a few euros higher. Generally speaking, outside the best office districts, the rental development in the HMA office market has been quite modest for several years. At the same time, operating expenses have increased. As the general economic situation deteriorates, the possibilities of increasing rents will be weaker in the future. High vacancy rates as well restrict opportunities to increase rents in areas where tenants have several options from which to choose their premises.

The Helsinki Metropolitan Area office market vacancy rate remained unchanged in the second half of 2019 meaning that the big picture of the office letting market in the Helsinki Metropolitan Area is still more or less challenging. In the HMA, the amount of vacant office space is still above one million square metres, but there are district-specific differences in vacancy rate development. The vacancy rate decreased slightly in the Helsinki city centre, Ruoholahti and Keilaniemi districts. An increase in vacancy rates was seen in the Vallila-Kalasatama-Hakaniemi and Leppävaara districts as well as along Länsiväylä-highway. Vacant premises are concentrated mainly in older buildings, which means that vacancy in new and modern office stock is not as big a problem as could be assumed on the basis of the figures concerning the whole office stock.

According to KTI, on average, some 76,000 sqm of new office premises have been completed annually in the Helsinki Metropolitan Area over the last decade. New construction is mainly focused in Helsinki, where significant projects are underway; for instance, in Pasila, Kalasatama, Jätkäsaari and Telakkaranta. In the future, the focus of office construction seems to be shifting to eastern Espoo. Currently, several projects are planned and under construction, especially in the Keilaniemi and Otaniemi areas. The largest new office project in the Helsinki Metropolitan Area launched in 2019 was NCC's OOPS project in Leppävaara's Hatsinanpuisto area. More efficient space usage and active new construction will leave premises vacant, especially in older office stock, so no significant level correction for vacant office space will be seen in the near future.

According to KTI reports, some 600,000 sqm of office space has gone off the market during the past decade due to conversions to some other use. The pace has accelerated over the past couple of years, with annual depletion reaching approximately 100,000 sqm. Two thirds of the total office stock reduction have been changed to residential use. In the best locations, offices are also being replaced by hotels.

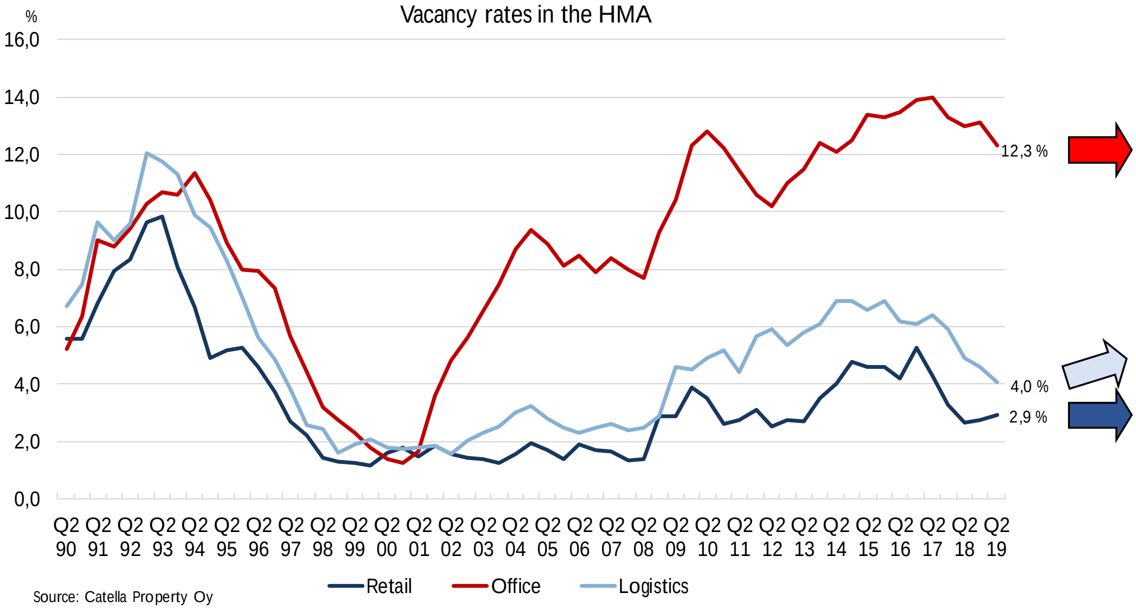
Retail rents hold their ground in Helsinki city centre, but in other submarkets, rental development expectations are neutral or downward. Helsinki was the only city where respondents to the RAKLI-KTI Property Barometer conducted in the autumn evaluated that prime retail rents had increased during the past six months. In all other major Finnish cities, the balance figures of rental outlook were negative, meaning that most respondents expect retail rents to fall rather than rise. However, in Turku and in the Helsinki metropolitan area, most of the respondents expect rents to remain stable.

According to the Finnish Council of Shopping Centres, total sales of shopping centres increased 4.4 per cent in the third quarter of 2019. Total sales growth was the fastest in the history of the Council since late 2012. In the Helsinki Metropolitan Area, shopping centre sales increased by 4.7 per cent and in other major cities by 2.8 per cent compared to the third quarter of 2018. The growth in number of visitors also accelerated, with 1.4 per cent more visitors in July-September than in the same period in 2018.

Sales increased in almost all of the industries tracked by the index. The highest growth rate was again recorded for entertainment and leisure services, with sales up 13.7 per cent in July-September compared with the corresponding period in 2018. High growth rates were also recorded in total sales of cafes and restaurants, interior and home goods, and beauty and health products. After a long period of decline, sales of fashion and accessories now turned to increase of 1.6 per cent.

According to Statistics Finland, in January-November 2019 retail sales volume and turnover both increased by 2.6 per cent. Grocery sales volume increased only 0.1 per cent in January-November 2019, but turnover increased by 2.0 per cent. Department store turnover increased by 4.0 per cent and sales volume by 3.4 per cent.

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 2019**. The arrows point to a trend in the second half of the year.



In the Helsinki Metropolitan Area, the office vacancy rate began to increase in the second half of 2012. The amount of vacant office space peaked in the summer 2017 when the vacancy rate was at about 1.2 million square metres (14.0 per cent). Since then, occupancy rates have improved and, in June 2019, the amount of vacant office space was approximately 1.05 million square metres, representing a vacancy rate of 12.3 per cent. No significant change in vacancy occurred in the second half of 2019. Thus, the amount of vacant space has decreased by about 150,000 m^2 from the peak, but still the amount of vacant office space is over one million sqm, which is about 180,000 m^2 more than in summer 2012. The vacancy rate of retail premises in June 2019 was 2.9 per cent, and there was no change in vacancy rates for them either during the autumn. By contrast, vacancy rate for industrial and warehouse premises have slightly increased from the 4.0 per cent level in the summer.

RESULTS OF THE VALUATION

The date of valuation for Sponda's investment properties is 31 December 2019. Hereafter, the key figures on this valuation date have been compared to the key figures in the valuation made on 30 June 2019.

The weighted average net yield requirement in the cash flow calculations was 5.63 per cent (30 June 2019: 5.68 per cent) for the entire investment property portfolio. The initial yield for the investment property portfolio inspected by Catella was 5.16 per cent (30 June 2019: 5.26 per cent).

Sponda no longer monitors the economic occupancy rate of its investment properties according to the instructions of the European Public Real Estate Association (EPRA). Therefore, comparable occupancy rate figures compared to previous inspections are not available.

Changes in the Portfolio Structure in 2014

Since the beginning of 2014, Sponda has modified its portfolio structure so that in certain properties located in the city centres of Helsinki and Tampere the retail premises are part of the shopping centre portfolio and the office premises are part of the office portfolio, while previously the entire property belonged to either the office portfolio or 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 10 properties, of which three are located in Tampere and seven in the Helsinki city centre. The Forum block properties (six), which were acquired at the beginning of 2016, are also split between the shopping centre portfolio and the office property portfolio.

Office Property Portfolio

Approximately 91 per cent of the value of Sponda's office property portfolio consists of properties located in the Helsinki Metropolitan Area, with the remaining nine per cent located in Tampere, Oulu, Hämeenlinna and Vaajakoski. The properties located in the Helsinki city centre and in Ruoholahti form approximately 77 per cent of the value of the HMA properties, and their proportion of the entire Finnish Office and Retail Portfolio is approximately 70 per cent.

During the second half of 2019, the following properties were divested from the office portfolio:

- Helsinki, Aleksanterinkatu 19 (Aleksi-Hermes) (4,300 m^2)
- Helsinki, Aku Korhosentie 8 (Koy Estradi) (4,415 m^2)
- Helsinki, Itäkatu 11 (7,646 m^2)
- Espoo, Komentajankatu 5 (4,430 m^2)
- Espoo, Kivenlahdenkatu 1 (Koy Poijupuisto) (3,715 m^2)
- Espoo, Pyyntitie 7 (Koy Tiistilän Miilu) (2,740 m^2)
- Espoo, Koy Tiistinhovi (2,580 m^2)
- Espoo, Linnoitustie 2B (Koy Quarteton Cello) (5,240 m^2)
- Tampere, Hämeenkatu 13A (2,640 m^2)

An office property located in Helsinki city centre at the address Arkadiankatu 4–6 is under renovation, and it is interpreted as development property; therefore, in this phase, Catella has not inspected the value of the property, nor is it taken into account when calculating the key figures of the office property portfolio.

Based on Catella's review, the cash flow yield requirements in the office property portfolio were decreased in 26 cases, primarily by 5–50 basis points. The changes mainly concerned 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 23 cases, mostly by 10–80 basis points; however, in some individual properties, the increase was larger. The yield increases involved all sub-markets except the Oulu region and the changes were based on object-specific features (e.g. a weakened rental situation) or district-specific changes in the market situation. The biggest increases in yield requirements were due to new building condition information. The fact that yield requirements decreased in some cases and increased in other cases reflects the polarisation between prime properties and other properties that has taken place in the market. In addition, the occupancy rate assumptions were updated in several cases.

The weighted average net yield requirement in the cash flow calculations was 5.85 per cent for the entire portfolio (30 June 2019: 5.93 per cent). The initial yield for the portfolio inspected by Catella was 5.36 per cent (30 June 2019: 5.50 per cent).

Shopping Centre Property Portfolio

The number of assets in the shopping centre portfolio increased at the beginning of 2014 to 24 (previously 16) due to the structural portfolio changes described above. Catella did not inspect one of these properties because it is an unfinished development property included in the Citycenter complex. Six properties (a total of 44,080 m^2) located in the Forum block were bought into this portfolio in the first half of 2016. A new asset for Catella's inspection in the second half of 2018 was shopping centre Ratina in Tampere (52,850 m^2). During the second half of 2019, one asset, Aleksanterinkatu 19, Helsinki (4,000 m^2), was divested from the portfolio. The portfolio now has 28 assets.

Approximately 66 per cent of the value of the shopping centre property portfolio consists of properties located in the Helsinki Metropolitan Area, with the remaining 34 per cent located in Tampere and Oulu.

Based on Catella's review, the cash flow yield requirements in the shopping centre property portfolio were decreased in eight cases, mainly by 10–40 basis points; however, in some individual properties, the increase was larger (e.g. Koy Helsingin Vanhanlinnantie 3, which has a new long lease agreement). All decreases concerned properties located in the Helsinki Metropolitan Area. The yield requirements were increased by 20–150 basis points in 13 properties. For example, the yield requirement for all 10 properties in Zeppelin Shopping Centre was raised, and the largest increase in yield requirements focused on this particular shopping centre. The remaining three increased yield requirements were applied to properties located in Tampere. The changes in yield requirements were primarily based on local market factors and secondarily on object-specific features.

The weighted average net yield requirement in the cash flow calculations for the shopping centre property portfolio inspected by Catella was 5.16 per cent (30 June 2019: 5.20 per cent). The initial yield for the portfolio was 4.80 per cent (30 June 2019: 4.85 per cent).

Logistics Property Portfolio

With the exception of one property, the properties in the logistics portfolio are located in the Helsinki Metropolitan Area. The sizes of the properties vary 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.

No properties were divested from the logistics portfolio since Catella's previous inspection. Also, no new acquisitions have been made. 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 logistics property portfolio was increased in one case by 20 basis points and decreased in one case by 10 basis points. The weighted average net yield requirement in the cash flow calculations was 9.36 per cent (30 June 2019: 9.37 per cent) for the entire logistics property portfolio. The initial yield for the logistics property portfolio inspected by Catella was 7.81 per cent (30 June 2019: 8.04 per cent).

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.

No portfolio-specific data on occupancy rates was available for this inspection.

The scarcity of prime properties for sale and the strong demand for these have further decreased yield requirements in the second half of 2019, especially in the Helsinki city centre and other attractive office districts. Regarding Sponda’s assets, the changes in the cash flow yield requirements were caused primarily 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.

Sponda has revised the operating costs of the properties in connection with this valuation and according to the obtained information Sponda has updated the operating costs of each property based on the realised operating costs from 2018, the budgeted operating costs for 2019 and the forecast for operating costs for 2019. From these three figures, the best estimate for the long-term operating cost level was used in the valuation; in most properties, the operating costs increased. In connection with this inspection, Catella did not have detailed information available regarding the factors that affected the operating cost level, nor could Catella have any influence on the operating cost levels used in the calculation.

Catella Property Oy

Helsinki, 28 January 2020

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