

STATEMENT

Evaluation of the fair value of Sponda Plc's
investment properties on 31 December 2018



SPONDA

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

Sponda Plc (hereinafter referred to as "Sponda" or "the Company") conducts its own 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 autumn 2007 and 2015 and again in March 2017, when Sponda switched to a new cash flow model, and confirmed that these fulfil the IFSR requirements and the commonly approved valuation criteria and are carried out according to International Valuation Standards (IVS).

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

On the date of valuation, 31 December 2018, Catella reviewed the property valuations of the investment properties located in Finland that had been carried out internally by Sponda. The valuations have been prepared on the basis of **Fair Value** for financial reporting, which is defined in IVS 300 par. G1, based on IFRS 13, as follows: "*Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*" IVS 300 par. G2 states that **Fair Value** under IFRSs is generally consistent with **Market Value**.

Catella inspected the data regarding assumptions about market rents and occupancy rates and enquired 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 sales comparison approach as a verifying method when analysing the fair value of the properties.

Development properties, trading properties and properties located in Russia are 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 2018
 - Danske Bank, Economic trends and finance market, December 2018

As an overview of the economic climate, it can be stated that the quickest phase of growth in global economy has passed and growth will further decelerate in the near future. The reason for the slowdown is normal economic cyclical development, but also a partial materialisation of trade conflicts between major economies. However, the development of the global economy is polarizing—the economic outlook in Europe especially weakened in 2018, but, on the other hand, the US economy grew strongly and developing countries also supported the growth of world trade. Essential risks related to economic development include reflections caused by the gradual normalisation of US monetary policy, the indebtedness of the Chinese economy in a situation where the country’s domestic economic growth is decreasing, the increased threat of protectionism to global trade, and increasing geopolitical tensions. In addition, if the UK exits the European Union without an agreement, this might weaken economic growth at least in Europe, but may have some wider effects on the global economy as well.

In emerging Asian countries, the mid-term outlook for economic growth is still uncertain. **The Chinese** economy grew 6.9 percent in 2017. In the third quarter of 2018, GDP growth was 6.5 percent. This was the first quarter in three years when growth remained below 6.7 percent. According to the preliminary information, growth for the whole of 2018 was 6.6 percent, which is the slowest growth since 1990. 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** was the strongest among the world’s large economies during the first half of 2018. However, the growth decelerated in the third quarter to the level of 7.1 percent, which is the lowest level in three quarters. The main reasons for the slowdown were the decrease of private consumption, the high oil price and the weakened exchange rate of the rupee. However, at the beginning of 2018, India took back its leading position from China as the fastest growing economy in Asia. The World Bank forecasts that India’s economic growth will continue at the level of 7.5 percent in the coming years. **In Japan**, the brisk growth of the second quarter faded out in the third quarter when typhoons and the earthquake weakened economic activity. The slump is most likely temporary because purchasing managers’ indexes indicate that growth will continue, and the reconstruction following the destruction caused by the natural disasters will increase investments. Japan is still one of the biggest economies in the world; however, due to the ageing population and the modest pace of reform, its role will decrease in the future.

In the United States, the economic boom is already chasing records as the economy has already been developing favourably for eight years and GDP is already more than 15 percent higher than before the financial crisis. This run of unbroken growth is already the second longest in the country’s history and a record will be reached within a year. If current growth forecasts are realised, the record will be broken in the summer 2019. In the third quarter of 2018, the US economy grew at an annual rate of 3.5 percent. Growth was mainly driven by increased consumer demand, which was caused by the tax reductions granted for companies and households.

The unemployment rate has further declined and, in November, it stood at 3.7 percent, which is the lowest for almost 50 years. In November, annual inflation was 2.5 percent, which exceeds FED's target level of 2 %. A threat to the continuation of the positive economic development is the central bank's possible pressure to tighten monetary policy more than anticipated. However, purchasing managers' indexes, which reflect the economic outlook of American companies, still show strong expectations for future development of the real economy in the service sector as well as in the industrial sector.

A trade war remains a significant anxiety but, for the time being, it has not prevented economic growth. In the short term, economic growth has been spurred by President Trump's tax reform, especially thanks to tax incentives related to investments. However, on the other side of the coin, the budget deficit will increase remarkably when the tax reduction is timed out in a mature phase of the economic boom. The conduct of domestic politics will become slower due to the Democratic Party winning a majority in the elections to the House of Representatives. However, in commercial policy the president's position remains strong.

Due to the improved economic climate, the US Federal Reserve (FED) increased its target funds rate for the first time by 25 basis points, from 0–0.25 percent to 0.25–0.50 percent, in December 2015. Since then, nine increases of the same size have been made to the target funds rate, with the latest in December 2018; the rate level is now 2.25–2.5 percent. Prior to these hikes, the FED had last increased the interest rate in 2006. The FED itself forecasts that it will continue the series increases in 2019 but more moderately than in 2018, although President Trump has taken a poor view of the FED's monetary policy.

In the eurozone, economic development after the financial crisis was clearly weaker than in the United States for several years. The same level of GDP that prevailed before the crisis was reached after seven years in 2015. In the US, it was reached in the third year after the crisis. Economic development in the eurozone has been favourable for five years now and, in 2017, GDP growth was 2.5 percent. The year 2018 turned out to be a partial disappointment. Purchasing managers' indexes and other indicators forecast that economic growth will decelerate notably, but there is no reason to expect an actual recession. Danske Bank forecasts that GDP growth in the eurozone is 1.9 percent in 2018 and 1.7 percent in 2019.

The deceleration of the eurozone's economic growth in 2018 compared to the strong figures in previous year was mainly caused by attenuated development in global trade. The engine of Europe's economic growth, Germany, is spluttering when gross domestic product grew only 1.5 percent in 2018. The growth rate was the slowest in five years and, based on advance information concerning January, Germany's economy might already be close to recession. According to advanced information, the second largest economy in eurozone, France, is also on the brink of recession. Other reasons for fading growth are waning resources in many countries, although the unemployment rate in the eurozone was still 8.1 percent. However, country-specific differences in unemployment are wide. Investments have not reached the same level that prevailed before the crisis, although, for example, construction has gained better speed. The fragile condition of Italy's economy, the increase in France's public debt, Brexit and the uncertainty related to resistance of economic growth among investors are all decreasing enthusiasm for investments. In January, the International Monetary Fund weakened its forecast 0.3 percentage units to the level of 1.6 percent regarding the eurozone's economic growth in 2019.

Finnish GDP increased by 2.8 percent in 2017, which exceeded the eurozone's average growth rate (2.5%). The Ministry of Finance and the Bank of Finland forecast that GDP growth in 2018 will be 2.5 percent. However, growth is predicted to decelerate in 2019 to the level of 1.5–1.9 percent. The economic outlook has become weaker after a strong start at the beginning of 2018. Growth decelerated already in the spring and a new speed-up did not occur in the autumn as was still expected in the early summer. The third quarter was especially disappointing based on many indicators: exports and investments came to a halt and private consumption was not as strong as anticipated earlier. The peak of the economic cycle has passed, but the economy is not heading for recession, the pace will slow down towards long-term potential growth, which Danske Bank forecasts as 1.5 percent.

The blander outlook for the global economy will have impacts on Finland as well, the impetus of the global economy is starting to flatten out and the support of monetary policy for growth is set to subside slightly. Furthermore, several fields of business are beginning to suffer from a lack of skilled labour or production capacity. If the forecasts regarding the significant deceleration of the eurozone's economy are realised, it will also affect Finland's economy as 40 percent of the value of goods exports goes to the eurozone.

In the first half of 2018, investments increased 3.5 percent. Growth came solely from construction investments. Construction will continue actively, but compared to the top-level, decreasing development will probably be seen. On the other hand, industrial investments in machinery, equipment and vehicles have decreased consecutively for a year. However, the high production capacity utilisation, good availability of financing and the strong outlook of companies indicate that industrial investments will be seen in the future.

Exports started to grow strongly at the end of 2016 and growth continued in 2017 when the export volume increased 7.5 percent. However, in 2018 the development of exports has been weaker than anticipated and, according to Danske Bank's forecast, the growth rate will decelerate to 1.1 percent; however, in 2019, exports are expected to pick up to 2.5 percent when two large ship deliveries increase the figures for goods exports. Political risks such as commercial policy constitute a menace to the positive development.

On the whole, the situation of the Finnish economy is still rather bright despite the increased risks to the global economy. Consumer confidence is still clearly above the average level, although this sector has also come down to more everyday figures from the top level, which was seen at the beginning of the year. When the development of exports is modest, the role of domestic demand will be emphasised as a supporting factor in economic growth. The normalisation of the monetary environment is still ahead, step by step, which creates pressures for households and companies in terms of increasing interest rates.

The unemployment rate reached the peak of this cycle at 9.5 percent 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 7.1 percent in November 2018. According to Statistics Finland, the number of unemployed people in November 2018 was 168,000, which was 22,000 fewer than one year ago. The Ministry of Finance's forecast in December predicted that the annual unemployment rate would decrease to the level of 7.5 percent in 2018 and 6.9 percent in 2019, and that an unemployment rate of 6.7 percent would be reached in 2020.

The forecasts given by domestic forecasters in December 2018 are presented in the following table.

FORECASTER - December 2018	GDP 2018 => 2019	EXPORTS 2018 => 2019	INFLATION 2018 => 2019	UNEMPLOYMENT RATE 2018 => 2019
Danske Bank	+ 2.3 % => + 1.7 %	+1.1 % => +2.5 %	+1.1 % => +1.5 %	7.5 % => 7.0 %
Aktia Bank	+ 2.4 % => + 1.8 %	+0.7 % => +1.5 %	+1.1 % => +1.6 %	7.7 % => 7.2 %
POP-Bank	+ 2.2 % => + 1.8 %	+1.0 % => +3.0 %	+1.1 % => +1.4 %	7.5 % => 6.9 %
Bank of Finland	+ 2.5 % => + 1.9 %	+3.3 % => +3.5 %	+1.1 % => +1.3 %	7.6 % => 7.2 %
Ministry of Finance	+ 2.5 % => + 1.5 %	+3.5 % => +3.1 %	+1.2 % => +1.4 %	7.5 % => 6.9 %

Positive development in the general economic climate 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.

Accelerated economic growth has generated a positive mood in the letting market. In the first half of 2018, the vacancy rates for office premises in the Helsinki Metropolitan Area decreased slightly but, in the second half, no further decrease occurred. However, the amount of vacant office space in the HMA is still over 1.1 million square metres. Despite this, office construction remains busy; after a couple of quiet years, an upward trend in office construction was seen at the beginning of 2016 with 10 new projects launched during the year. In 2017, five projects were started, and a total of 71,000 m² of new office space was completed, which is more than twice the amount built in the previous year. In December 2018, approximately 239,000 m² of new office space was under construction in the HMA. Eight new projects were launched in 2018. Construction of retail premises in the HMA is also at a high level; in December 2018, approximately 176,000 m² of new retail space was under construction. This is less than a year ago when the figure was 220,000 m². The decrease in the amount of retail space under construction was caused by the completion of the Redi shopping centre during the autumn 2018.

INTEREST LEVEL AND FINANCIAL MARKET

The Governing Council of the ECB announced at its meeting in September that, by the end of 2018, the bank will take step-by-step measures to run down its bond purchase programme, which has been an unusual monetary policy action. The target of the asset purchase programme was €30 billion until the end of September 2018, after which net asset purchases were reduced to €15 billion and ceased at the end of December 2018. The council confirmed at its December meeting the former decision that purchases cease at the turn of the year.

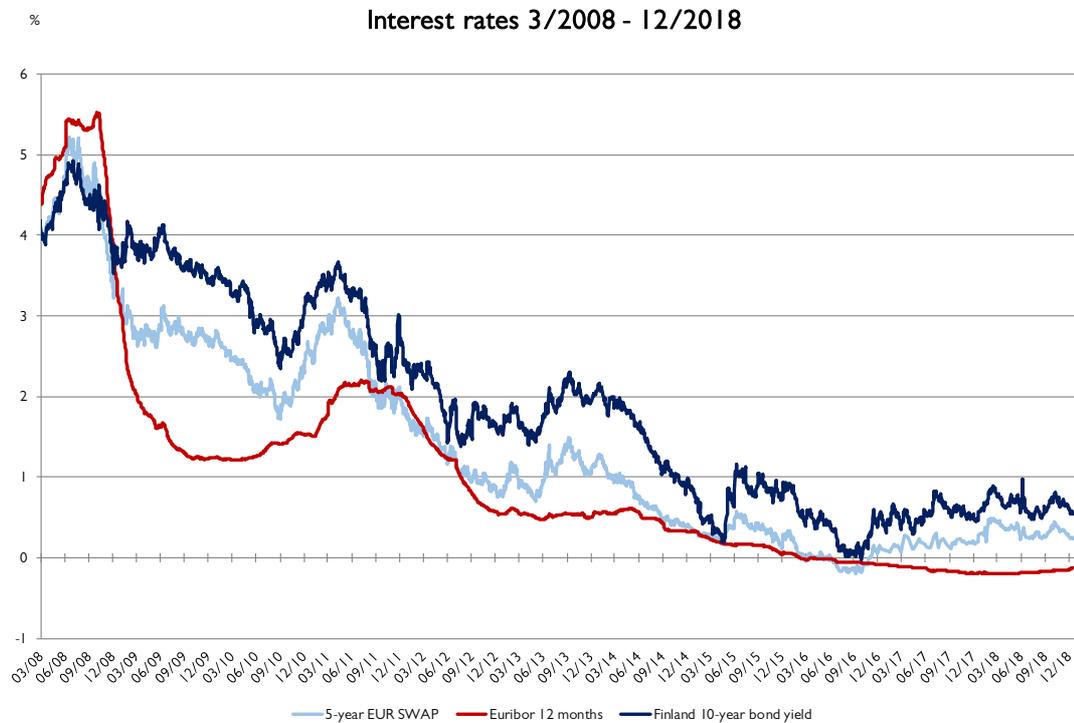
At its meeting in December 2018, the ECB decided to keep interest rates unchanged, i.e. the steering rate is 0.00 percent, the deposit rate -0.4 percent and the marginal lending rate 0.25 percent.

Danske Bank forecasts that the ECB will not increase the steering rate until December 2019. The forecast concerning the schedule for raising the interest rate was delayed due to weaker economic development than expected early in the year.

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 percent (and a steering rate of 1.0 percent). From the first half of 2013, the 12-month Euribor remained

above the 0.50 percent 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 decreased from its level in September (+0.41%) and was at a level of +0.25 percent at the end of December. The 12-month Euribor is still below zero (-0.125%).

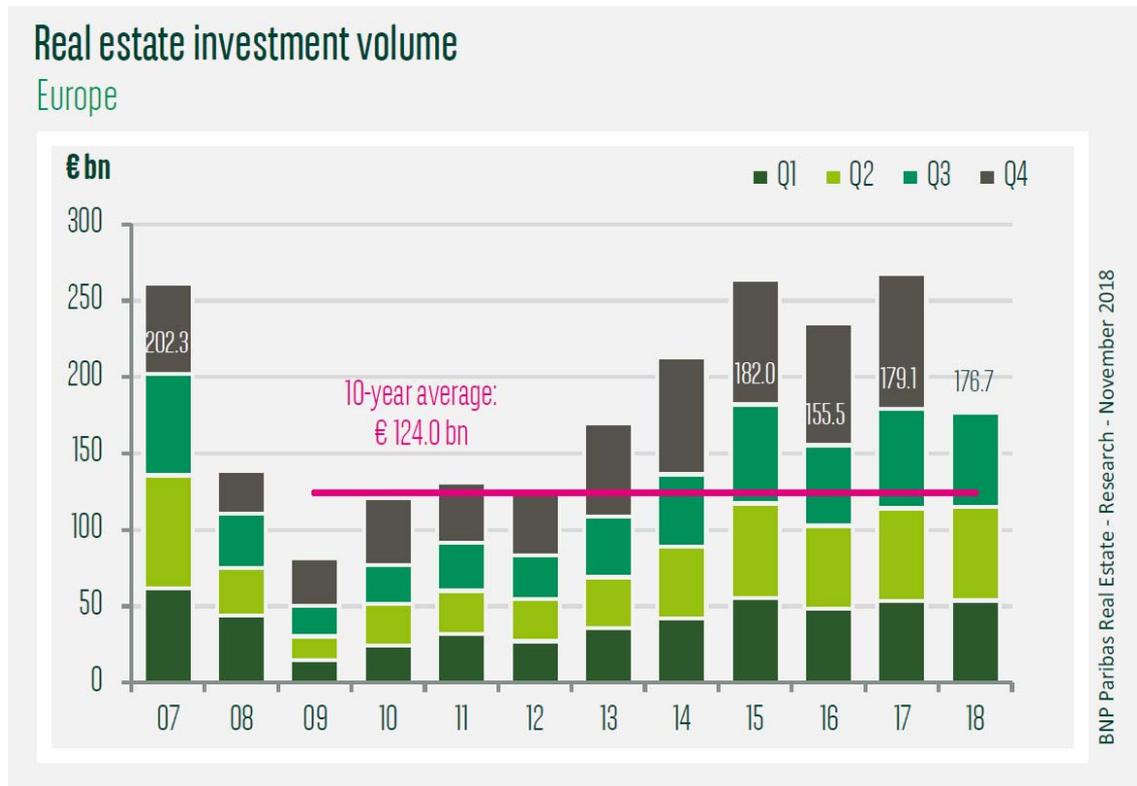
According to the **Swedish CREDI survey conducted by Catella in December 2018**, the main index decreased to a figure of 48.6, while still in June it was 54.3. The main index has decreased in two consecutive quarters. The current situation index is 52.2, but the Expectations index is 45.1, which means that the situation in the credit market is expected to worsen over the next three months. Credit margins are expected to increase and credit availability is expected to fall. Banks and property investors have similar views regarding the current situation in the credit market but, concerning the near future, banks have a slightly more pessimistic view. In the third quarter, the average interest rate for listed property companies decreased from 2.1 percent to 2.0 percent, which is the lowest rate observed in the history of CREDI.

PROPERTY MARKET

European Property Market Climate

Source: BNP Paribas

According to BNP Paribas, the total commercial real estate investment volume in Europe reached €176.7 billion in the first three quarters of 2018, only 1 percent below the same period in 2017. However, the volume for the whole year 2018 will most likely remain lower than in 2017 because transactions were made very actively in Q4 2017, and it is most likely that the same level will not be reached in 2018. In 2017, Europe saw an all-time record for real estate investment volume, reaching €259 billion.



After four years of consecutive decreases, yields reached historically low levels at the end of 2017. After that, prime yields stabilised in most European sub-markets. Prime office yields are at their lowest in Munich and Berlin, at a level of 2.0 percent. Paris is in second place at 3.0 percent.

Net prime office yields



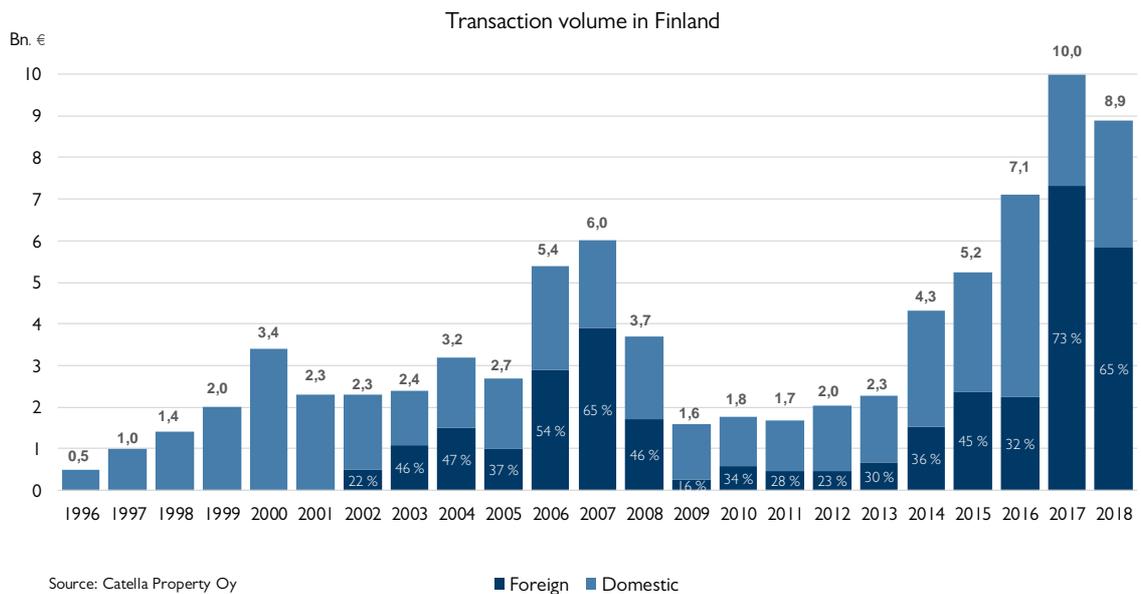
The Finnish Investment Market

In 2017, the commercial property transaction volume in Finland reached an all-time record level of approximately €10 billion. The year in question was already the second consecutive record year. Also, 2018 was a very active year with the transaction volume level settled between 2016 and 2017 reaching the second highest level of all time.

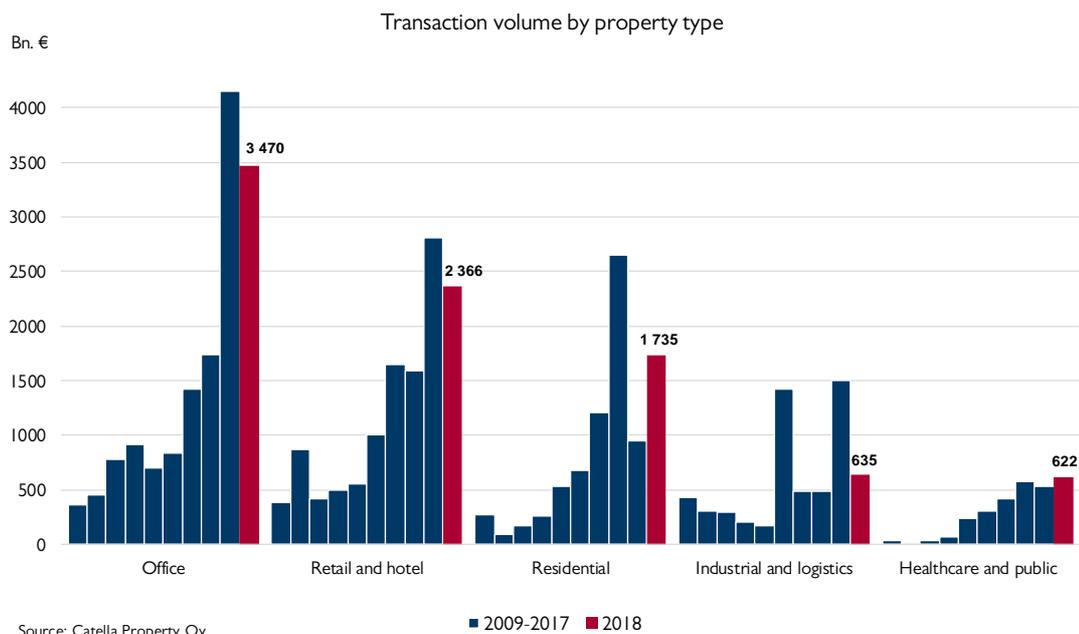
According to Catella’s follow-up data, the commercial property transaction volume was approximately €8.9 billion in 2018. Some other property market analysts, such as KTI and Datscha, reported even higher, over €9 billion. The reason for the difference comes from the interpretation of execution moments of some transactions, which were made around the turn of the year. Catella includes in the volume only such transactions that were actually closed in 2018. Other analysts have included in the volume those transactions that were signed or published in 2018 even though the deal will be closed during 2019.

Although the record-high transaction volume for 2017 was not reached in 2018, in many respects the market was even more active in 2018 than in the year before when the record volume was based largely on the sale of Sponda to Polar Bidco, owned by Blackstone Group, and the sale of Logicor properties to China Investment Corporation, together worth €4.7 billion. The year 2017 saw the execution of thirteen transactions worth over €100 million and their total value was €6.3 billion. In 2018, 19 transactions worth over €100 million were executed and their total value was close to €5 billion. In addition, 18 transactions hit between the price range of €50–100 million, meaning that in order to reach a high transaction volume, large deals are needed.

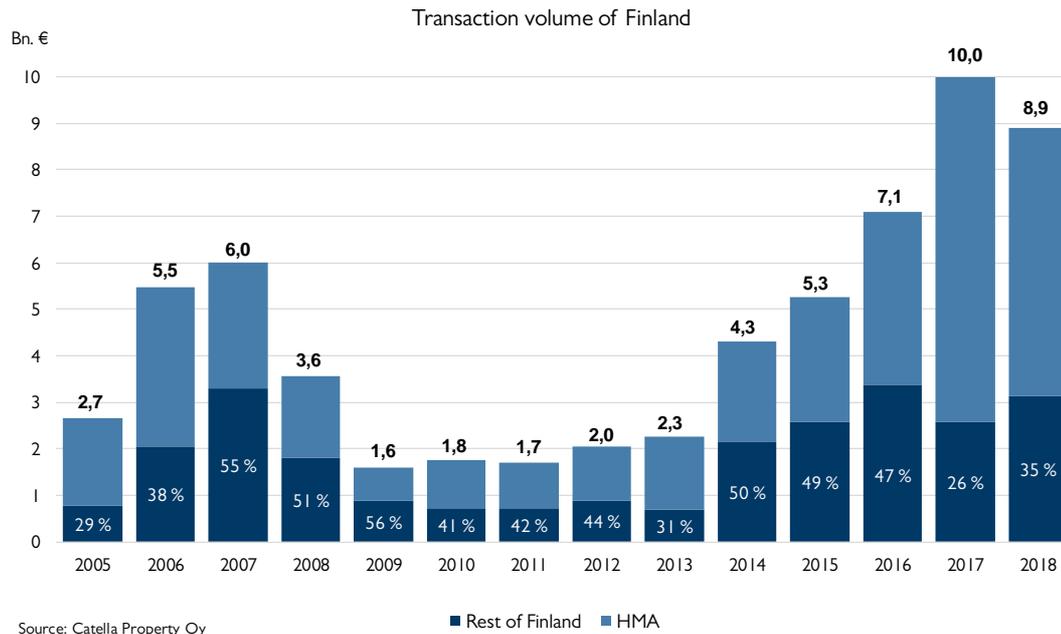
Foreign investors’ interest in the Finnish property market continues to be strong, international investors’ share of Finland’s transaction volume was 65 percent in 2018. International investors’ interest in Finland is driven by the economic cycle, which is behind other countries, as well as by Finland’s refreshed economic climate. Foreign investors are especially interested in prime assets and their aggressive pricing has been the reason for the outcome that domestic investors have not fared well in the price competition.



When viewing the division of the volume by property type, most transactions when counted in euros have been made for office properties (€3.465bn). The volume of office properties increased to a high level above all due to single large transactions made by core-investors, but also opportunistic investors made office property transactions. An example of the latter buyer group is Cromwell Property Group and Goldman Sachs, which in June bought a portfolio of 24 office properties and three unbuilt sites from IVG Polar Oy for a purchase price of €108.5 million. The transaction volume of retail and hotel properties was approximately €2.35 billion. In the category of retail properties, transactions were completed especially for grocery store properties, but also several shopping centre properties were sold across the country. The trade of residential portfolios was also more active than a year before (€1.72bn). The volume of care properties was, for its part, increased by a portfolio of €141 million bought by the Evli fund. The rentable area of this portfolio is 132,000 m². 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 2018 were the sale of DSV’s new logistics property to Korean investors and the sale of DHL’s logistics property to a German investor—in this deal the seller was Elo Mutual Pension Insurance Company. Both logistics properties are located in Vantaa.



When viewing the division of transaction volume between the Helsinki Metropolitan Area and the rest of Finland, approximately 35 percent of the volume has fallen on properties located outside the HMA. In June, the proportion was still 50/50 but, in the second half of the year, the trade clearly concentrated on the Helsinki Metropolitan Area. The higher portion of the growth centres in the first half of the year explains, for its part, the fact that almost all properties included in the retail property portfolio sold in March by Sirius were located outside the HMA. More and more interest is being focused on properties located outside the HMA because the yields in growth centres are clearly higher than in the HMA. The increase of transaction volume in growth centres is restricted by the fact that interesting investment objects are less available than in the HMA. 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 when bond and fixed-income instruments are offering historically low returns and risks related to stocks have increased.

Different types of investors have broken into the Finnish property market. Core investors are interested in properties that are new or relatively new, are rented with long leases and have low technical risks. Another ground for core investors' interest is a prime location in the city centre or another location that has stable occupier demand, even if the maturity of the asset's rental agreements is not especially long at the time of purchase. While the supply of these assets in the market is clearly lower than the demand for them, investors' focus has widened also outside the prime locations in the Helsinki Metropolitan Area and to growth centres. However, in these cases, the demand is selective and the risks are examined very carefully. For the reasons explained above, the price spread in office property transactions executed in the Helsinki Metropolitan Area has widened quite extensively. The highest prices per square metre in transactions made by core investors in the Helsinki CBD area have risen to the level of €10,000 per sqm and, in the Töölönlahti district, up to €12,000 per sqm, while opportunistic investors have bought older office properties in secondary locations at a price of around €1,000 per sqm or even below that.

Finland's commercial property market has developed positively for several years as for increased transaction volume, decreased yields and increased rental levels. A common view on the market is that the peak of the cycle is now at hand and, in the wake of the weakening general economic outlook, the property market will also start to cool down bit by bit. However, a collapse in the market is not on the horizon when the general interest rate level remains low, at least in the near future and financing for property investments is available with favourable terms.

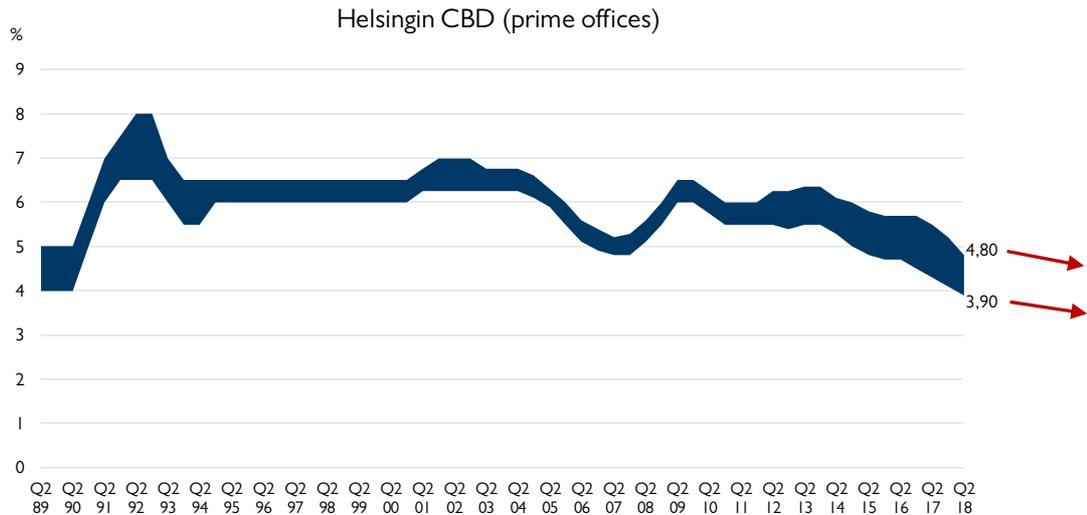
Yield requirements

Even if the general economic climate is developing in a positive direction, some eurozone countries are still struggling with economic difficulties, which compels the ECB to continue light monetary policy and keep the steering rate low for the time being. This, together with low inflation, is likely to keep the general interest rate level low for some time. Prime properties are sought out as a safe haven for investments, but there is a scarcity of investment opportunities in the market that fulfil the criteria, and a strong demand for them has decreased the yield requirements of prime properties to a record low level. Due to the scarcity of prime investment objects, investors' interest has recently widened to B-class properties as well, but their yield requirements are clearly higher.

Catella's opinion on the yield requirement regarding Helsinki CBD prime office properties in June 2018 was in the range of 3.9–4.8 percent. In cases where the property is rented with long leases, the yield requirements could be 0.1–0.7 percentage units lower than those mentioned above. During the autumn the strong demand for prime properties continued and yield requirements have still slightly decreased. The prime property transactions made in Helsinki CBD in 2018 can be mentioned as the sales of two office buildings located in the Töölönlahti district. The first transaction took place in February and it concerned an office property mainly rented to KPMG, with a purchase price of €190 million. Another property was sold in December at a price of €116 million. Alma Media and Ahlstöm-Muncksjö were the main tenants of this property. In both deals the seller was Ilmarinen. Also, the sale of Stockmann's Book Store (€108.6 million) took place in 2018. According to our knowledge, in all the above-mentioned transactions the gross initial yield was below 4 percent. To the same category of properties, which were sold with a gross initial yield below 4 percent, is joined the so-called Urban Environment House (Kaupunkiympäristötalo) that is under construction in the Kalasatama district; the City of Helsinki decided in September to sell it to the German investor Union Investment Real Estate GMBH. In this deal, the gross initial yield was at a level of 3.7 percent.

In the main Central European markets of Germany and France, the yields for prime properties have sunk to the level of 3 percent and in Stockholm the yields are at the level of approximately 3.5 percent. The gap between prime yields between Helsinki and Stockholm has traditionally been 0.5–1.0 percentage units but, over the year 2018, the yield gap has become close to non-existent. The yield level of Helsinki CBD prime properties has still slightly decreased during the autumn, but the general view is that it has now most probably hit rock bottom. In other good locations, there might still be room for a further decrease if suitable investment objects become available. Catella's opinion on the development of yield levels is based on closed deals, observations of quotes and discussions with investors.

The following chart describes the development of the yields of prime office properties in the Helsinki CBD **until Q2-2018**, and the arrows indicate the development direction in the second half of 2018.



* 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 last June was 0.4 percentage units higher than for office premises. In the second half of 2018, office yields have still slightly decreased, but retail yield instead has slightly increased, which means that the yield gap between Helsinki CBD retail and office premises has further widened compared to the situation in the summer. Investors see risks related to retail premises, especially in the rental market, because there is a great deal of retail space completed recently and still under construction in Helsinki (e.g. the shopping centres Tripla and Redi) and webstores are taking their portion of the sales from traditional stores. In addition, the market has recently seen a couple of well-known chains go bankrupt or undergo debt restructuring, and some clothing chains have reported decreasing revenues.

Investors are similarly interested in modern logistics properties as well as other property types, provided that the premises are rented with long lease agreements. Due to strong demand, the decline in yield requirements concerns logistics properties as well, and prime logistics yields have decreased to a level of 6.10 percent, or even lower if the property has a long lease agreement. The yield requirements of older industrial and warehouse properties are clearly at a higher level, and the investment interest towards them is rather weak.

Letting Market

Recently, the improved general economic situation has caused an increase in activity in the Helsinki Metropolitan Area office rental market. Rent levels have also seen a clear upward trend, especially in the CBD of the Helsinki city centre as well as in some of the best office areas outside the city centre. Companies once again had the courage to make decisions regarding their business premises but, along with the decelerating economic growth, caution is increasing. The KTI Office Rent Index for the Helsinki CBD increased by 6 percent between September 2017 and September 2018. The Helsinki CBD is by far the most attractive sub-market in the Helsinki Metropolitan Area’s office market. On the other hand, several less attractive sub-markets suffer from high vacancy rates and weak rental development.

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 poor a location is weak. As a new trend in the office market is for communal coworking premises, they respond to the demand of short-term 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/m²/month and quotations for smaller premises are at the level of €40/m²/month. However, a typical rent level for accustomed but modern offices in the Helsinki CBD is at a level of €29–34/m²/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 €–10 per sqm, meaning a level of €21–26 /sqm/month and still the location is in the city centre.

In many office sub-markets outside the Helsinki city centre, the gross rent level remains below €20/m²/month. On the other hand, in the same area, the office rent level in new buildings can be 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. When the general economic situation is developing in a positive direction, there is pressure to increase rents, at least from the property owners' side. On the other hand, high vacancy rates still restrict opportunities to increase rents in areas where tenants have several options from which to choose their premises.

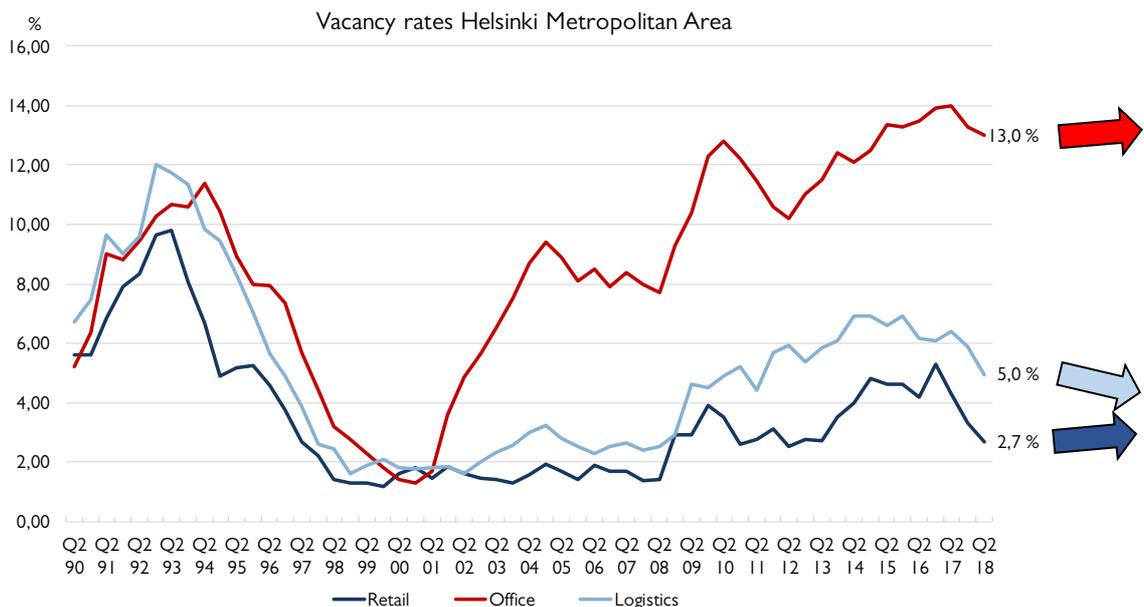
Despite the positive economic development, the big picture of the office letting market in the Helsinki Metropolitan Area is still more or less challenging. The total vacancy rate for offices did not decrease in the second half of 2018. In the HMA, the amount of vacant office space is still above 1.1 million square metres, but there are district-specific differences in vacancy rate development. The vacancy rate decreased slightly in the Keilaniemi, Leppävaara and Pitäjänmäkin districts but, in other districts outside the Helsinki city centre, a slight increase in vacancy rates was seen. If counted in square metres, most vacant office space can be found in Pitäjänmäki, Vallila, Kalasatama and Hakaniemi. Vacant premises are concentrated mainly in older buildings, which means that vacant premises 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.

The positive economic development might decrease the vacancy rate in the future but, at the same time, new construction projects increase the supply, so a significant change in the amount of vacant space cannot be expected in the near future. Even though the overall situation in the rental market has improved, disparities between different sub-markets are substantial. In attractive sub-markets such as the Helsinki CBD, Ruoholahti,

Keilaniemi and Leppävaara, the negotiating positions of landlords have improved but, in sub-markets where the vacancy rate is high, the negotiating position of tenants is still good. In less attractive districts, it is still typical for several rent-free months and/or incremental rent increases to be included in lease agreements. On the other hand, in top-rated districts, these kinds of incentives are no longer common practice.

According to Statistics Finland, the amount of retail trade increased 1.7 percent and the increase in value was 2.7 percent in 2018 compared 2017. The corresponding increase for the amount of grocery store trade was 0.3 percent and for the value it was 3.4 percent. The recent news regarding increasing sales figures of retail trade and the positive tune in economic development have generated positive expectations regarding the rental development of retail premises in the Helsinki city centre. The development of sales figures in shopping centres has also adopted an upward tendency. According to the Finnish Council of Shopping Centres, total sales continued to increase in 2018. During the first three quarters, the growth was 1.6 percent. However, the development of number of visitors to the comparable stock of shopping centres was negative (-1.8%) When new shopping centres and extensions and renovations for existing centres are taken into account, the increase in total sales was 4.4 percent and the increase in visitors was 3.5 percent in the third quarter of 2018. New shopping centres, which were opened in large cities outside the HMA during last year, and extensions to the existing centres located in the HMA supported the growth of the whole stock. When looking at the different branches within shopping centres, cafes and restaurants have increased their occupancy of premises and sales in shopping centres. Also, the share of public services continues to grow. The change in retail trade shakes strongest the branch of clothing and fashion, which has had decreasing development in sales and occupancy of premises in shopping centres already for several years.

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 2018**. Catella is just now collecting data in order to update these figures for the vacancy situation through to the end of December 2018, and the arrows on the right side of the chart indicate the predicted direction of vacancy rate development.



In the Helsinki Metropolitan Area, the office vacancy rate began to increase in the second half of 2012. In June 2018, the amount of vacant office space was approximately 240,000 m² higher than in summer 2012, reaching 13.0 percent. The amount of vacant retail space is only 12,000 m² higher than in summer 2012, with the vacancy rate of retail premises standing at 2.7 percent in June 2018. The amount of vacant industrial and warehouse premises was 63,000 m² lower than in the summer 2012, with their vacancy rate being 5.0 percent in June 2018.

Based on Catella's preliminary information, the decrease of vacancy rates of office and retail premises in the Helsinki Metropolitan Area has stalled in the second half of 2018. Vacancy rates for industrial and logistics premises continued to decrease.

RESULTS OF THE VALUATION

The date of valuation for Sponda's investment properties is 31 December 2018. Hereafter, the key figures on this valuation date have been compared to the key figures in the valuation made on 30 June 2018.

The weighted average net yield requirement in the cash flow calculations was 5.65 percent (30 June 2018: 5.62%) for the entire investment property portfolio. The initial yield for the investment property portfolio inspected by Catella was 5.26 percent (30 June 2018: 5.34%). The economic occupancy rate of Sponda's entire Finnish property portfolio was approximately 89.0 percent (30 June 2018: approximately 89.6%). Starting from summer 2010, Sponda has calculated the economic occupancy rate according to the instructions of the European Public Real Estate Association (EPRA), which means that, among other things, signed lease agreements starting in the near future are taken into account when calculating the occupancy rate. Vacant properties considered to be under development are not taken into account when calculating the occupancy rate.

Changes in the Portfolio Structure in 2014

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

In total, the changes in the portfolio structure affected 10 properties, of which three are located in Tampere and seven in the Helsinki city centre. The Forum block properties (six assets), 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 92 percent of the value of Sponda's office property portfolio consists of properties located in the Helsinki Metropolitan Area, with the remaining 8 percent located in Tampere, Oulu, Hämeenlinna and Vaajakoski. The properties located in the

Helsinki city centre and in Ruoholahti form approximately 71 percent of the value of the HMA properties, and their proportion of the entire Finnish Office and Retail Portfolio is approximately 65 percent.

During the second half of 2018, Koy Kaivokatu 12 (11,200 m²) located in Helsinki city centre was divested from the office property portfolio and as a new asset to Catella's inspection came Koy Värитеhtaankatu 8 (9,514 m²) located in Vantaa, Tikkurila. 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 18 cases, primarily by 10–30 basis points; however, in some individual properties, the drop was larger. 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 20 cases, mostly by 10–20 basis points; however, in some individual properties, the drop was larger. The yield increases mainly involved properties located in Espoo, Vantaa and towns located outside the HMA, but yields were increased also in some properties located in Helsinki. The changes were based on object-specific features (e.g. a weakened rental situation) or district-specific changes in the market situation. The fact that yield requirements decreased in some cases and increased in other cases reflects the polarisation between prime properties and B-class properties that has taken place in the market. In addition, the occupancy rate assumptions were updated in some cases. The weighted average net yield requirement in the cash flow calculations was 5.83 percent for the entire portfolio (30 June 2018: 5.84%). The initial yield for the portfolio inspected by Catella was 5.53 percent (30 June 2018: 5.53%). The economic occupancy rate of office properties was approximately 87.7 percent (30 June 2018: approximately 88.4%).

Shopping Centre Property Portfolio

The number of assets in the shopping centre portfolio increased at the beginning of 2014 to 24 assets (previously 16 assets) 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 m²) located in the Forum block were bought into this portfolio in the first half of 2016. As a new asset for Catella's inspection in the second half of 2018 came shopping centre Ratina in Tampere (52,850 m²). The portfolio now has 32 assets.

Approximately 70 percent of the value of the Shopping Centre property portfolio consists of properties located in the Helsinki Metropolitan Area, with the remaining 30 percent located in Tampere and Oulu.

Based on Catella's review, the cash flow yield requirements in the shopping centre property portfolio were decreased in five cases, mainly by 5–10 basis points and even more in one case. All decreases concerned properties located in the Helsinki Metropolitan Area. The yield requirements were increased by 0.15–0.50 basis points in two properties. 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 5.22 percent (30 June 2018: 5.0%). The initial yield for the portfolio was 4.81 percent (30 June 2018: 4.89%). The economic occupancy rate of the portfolio's shopping centres was 92.9 percent (30 June 2018: 95.0%).

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 m² in size but, after the sale of the Vuosaari properties, there are only a few objects left over the size of 10,000 m², and the largest property is approximately 15,000 m² in size.

No actual divestments of entire assets were carried out from the portfolio since Catella's previous inspection, but a small premises of 25 m² was sold at the address Koivupuistontie 26. No acquisitions were 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 remained unchanged. The weighted average net yield requirement in the cash flow calculations was 9.36 percent (30 June 2018: 9.36%) for the entire logistics property portfolio. The initial yield for the logistics property portfolio inspected by Catella was 7.29 percent (30 June 2018: 7.65 %), while the economic occupancy rate was 72.7 percent (30 June 2018: 73.6%).

Summary

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

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

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

The scarcity of prime properties for sale and the strong demand for these have further decreased yield requirements in the second half of 2018, 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 2017, the budgeted operating costs for 2018 and the forecast for operating costs for 2018. 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. According to the information obtained from Sponda, the total effect of the revised operating costs on the fair value of the investment property portfolio on 31 December 2018 was approximately €6.1 million. 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, 30 January 2019

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

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