



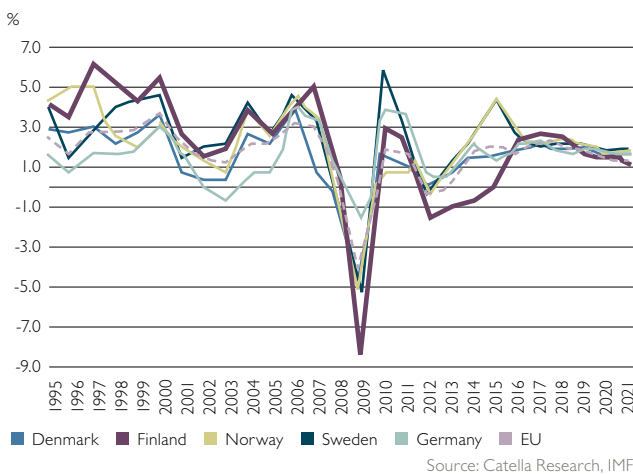
MARKET TRACKER SECOND QUARTER 2019

Finland Residential Market Tracker

1 Finland Macroeconomic Framework

The Finnish economy will continue to develop well in 2019, supporting the real estate investment and rental markets. Finnish GDP is expected to rise by around 1.8% in 2019. However, export growth is expected to slow and global trade disputes are expected to increase uncertainty. Investment growth is also expected to slow. Improved employment, rising profits and strong consumer confidence support positive prospects for private consumption and retail. However, economic growth is expected to slow to below 2% in 2020 and 2021.

FIG. 1: GDP GROWTH

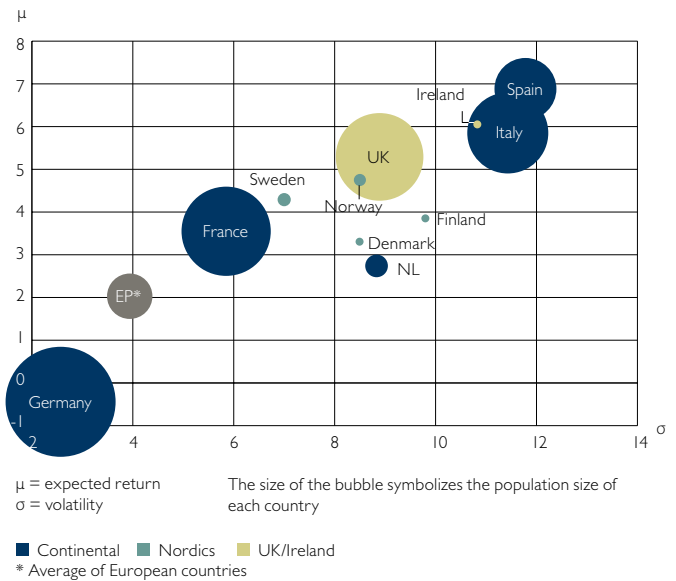


Key Facts 2018

- Capital: Helsinki
- Population: 5,520,535
- GDP growth: 2.64%
- Inflation: 1.21%
- Unemployment rate: 7.67%
- Housing Stock: 2.93 million (units)

2 Residential Investment Market

FIG. 2: RISK RETURN PROFILE OF EUROPEAN HOUSING MARKETS (1973–2018)



Source: Bank for International Settlements (BIS)
 Calculation & Construction: Catella Research 2019

Residential properties have lower volatility than property in general. Residential property has recorded especially low negative volatility, i.e. negative returns occur less often than in commercial property, the losses are less severe and recovery is faster than in commercial property. The negative value growths experienced have been to a large extent driven by capital return and income returns (= cash flows) have been very robust. This means better risk-adjusted return as at the same time return is higher.

Catella is a leading specialist in property investments and fund management, with operations in 15 countries. The group has assets under management of approximately EUR 18 billion. Catella is listed on Nasdaq Stockholm in the Mid Cap segment. Read more online at catella.com.

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FIG. 3: EUROPEAN INSTITUTIONAL RESIDENTIAL INVESTMENT VOLUME 2018 – COUNTRY REVIEW

in € billion

1	Germany	€16.8
2	Nordics (SE, FI, NO, DK, IS)	€13.3
3	United Kingdom	€7.7
4	Southern Europe (IE, PT, ES, GR, MT, CY, IT)	€7.4
5	Benelux (BE, NL, LU)	€6.3
6	Austria & Switzerland	€5.4
7	France	€3.1
8	Central Eastern Europe (PL, CZ, SK, HU)	€0.3
9	Eastern Europe	€0.1
Total		€60.4

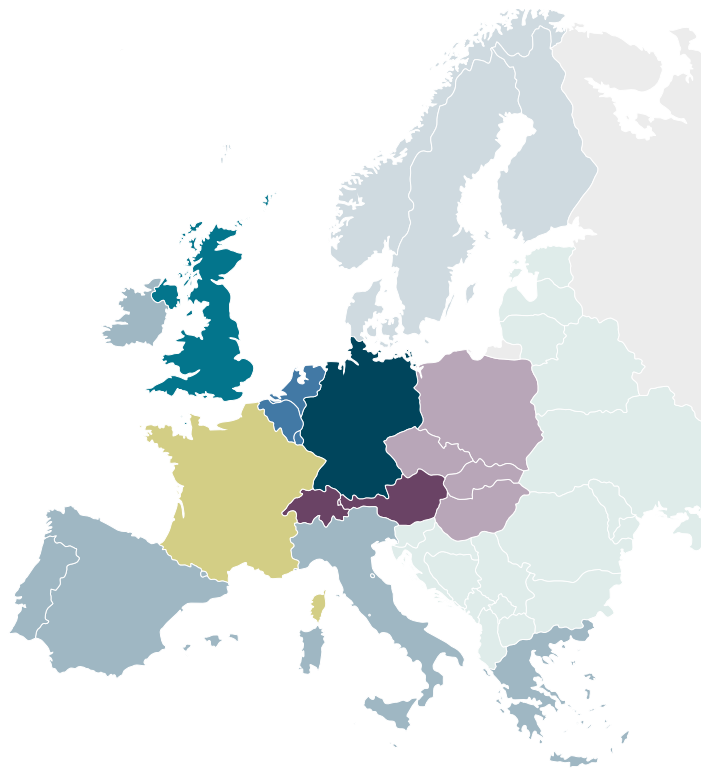
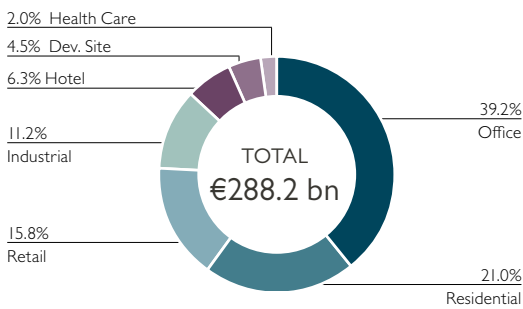


FIG. 4: EUROPEAN TRANSACTION VOLUME BY TYPE OF ASSET IN 2018



Source: Catella Research 2019, RCA

FIG. 5: INDIVIDUAL RESIDENTIAL TRANSACTIONS IN EUROPE AND FINLAND

Date	Property Name	City	Country	Yr Built	Price (€ m)	Owner/Buyer	Seller
Jul. 18	Portal West	Ealing	United Kingdom	2021	260		City & Docklands
Jan. 18	International Student Living	London	United Kingdom	1965	225	Westbourne Capital	The Crown Estate
Aug. 18	Deansgate Square	Manchester	United Kingdom	2020	225	Legal & General Property	Renaker
Sep. 18	Middlewood Locks Phase II	Manchester	United Kingdom	2019	201	APG Group, Qatari Diar, Get Living, Delancey, Oxford Properties Group	Metro Holdings, Scarborough Group, Hualin Group
Dec. 18	Grotius I. II	The Hague	Netherlands	2021	180	CBRE Global Investors, ASR Nederland	Provast
Jan. 19	Dublin Landings PRS	Dublin	Ireland	2019	176	Greystar Management	Ballymore Properties Ltd, Oxley Holdings
Jun. 18	The Grange	Dublin	Ireland		161	Kennedy Wilson, AXA IM	Glenkerrin Group, NAMA
Nov. 18	Sendling Apartments	Munich	Germany		160	GWG Munich	Industria Wohnen
May. 18	Walworth Estate	London	United Kingdom		153	Dorrington Properties Plc	Grainger plc
Oct. 18	High Lines	Frankfurt/ Main	Germany	2020	150	Rock Capital GmbH	Becken
Apr. 18	South Bank Tower (resi)	London	United Kingdom	2015	142	Jackyl	CIT Group Plc, Jadwa Investment
Date	Property Name	City	Yr Built	Price (€ m)	Owner/Buyer	Seller	
May 18	1.594 apartments	nationwide	n.a	97	A fund of Morgan Stanley	Kojamo	
Mar. 18	SRV Helsinki Apartments	Helsinki	2020/21	65	Local Tapiola	SRV Group	
Jan. 19	Yismaentie 12	Espoo	2021	60	NREP	Lujatalo Oy	
May 18	Lehto Apartments	nationwide	2020	53	Avara	Lehto Oy	
Oct. 18	YIT Apartments	nationwide	2019	25	OP Bank Group	YIT Corporation	
Jun. 18	Helsinki Apartments	Helsinki	2019	20	Icecapital	YIT Corporation	



International investors have for some time tried to acquire residential portfolios in Finland but have not succeeded materially, mainly because of active domestic housing funds. However, 2018 saw a breakthrough, and foreign investors stormed the Finnish residential market, led by BVK, the largest pension company in Germany, Round Hill Capital and Morgan Stanley. Foreign investors' share of the total volume of housing portfolios soared to 58% (33) in 2018.

Last year's total volume of €8.9 billion was the second highest of all times in Finland. The share of residential investment volume doubled in 2018 and was 19% (€1.69 billion), the third strongest sector after office and retail.

3 Finland Residential Market

FIG. 6: EU POPULATION BY TYPE OF RESIDENCE

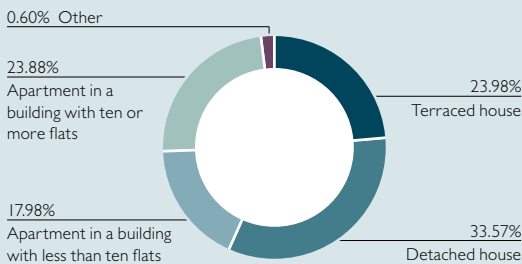


FIG. 7: FINLAND POPULATION BY TYPE OF RESIDENCE

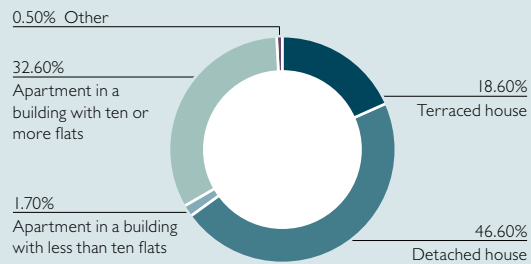
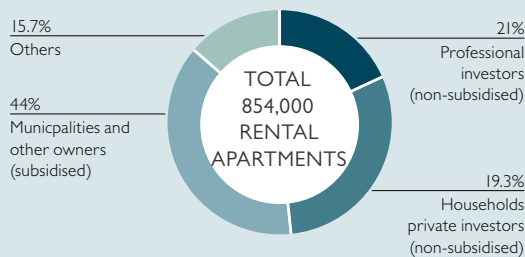


FIG. 8: OWNERSHIP STRUCTURE OF RENTAL APARTMENTS IN FINLAND



Source: ARA, Statistics Finland, Suomen Vuokranantajat, KTI

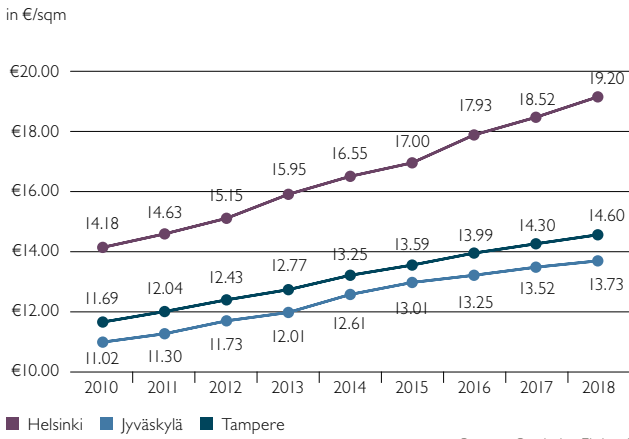
Rental housing market

At the end of 2016, there were around 854,000 rented apartments in Finland. Approximately 375,000 of these were provided with public subsidies, such as loan commitments or interest subsidies for the development of rental apartments. The majority of the subsidised apartments are owned by subsidiaries of the municipalities. Other subsidised housing is owned by non-profit organisations. The non-subsidised rental hous-

ing stock currently amounts to around 479,000 apartments. In recent years, the housing stock has increased significantly, above all due to new buildings and to a lesser extent due to the abolition of restrictions on subsidised housing construction. Finnish households have increasingly invested in rental housing in recent years, and the majority of non-subsidised housing (around 300,000 dwellings) is owned by Finnish households or other private investors.



FIG. 9: RENTAL DEVELOPMENT HELSINKI, JYVÄSKYLÄ, TAMPERE



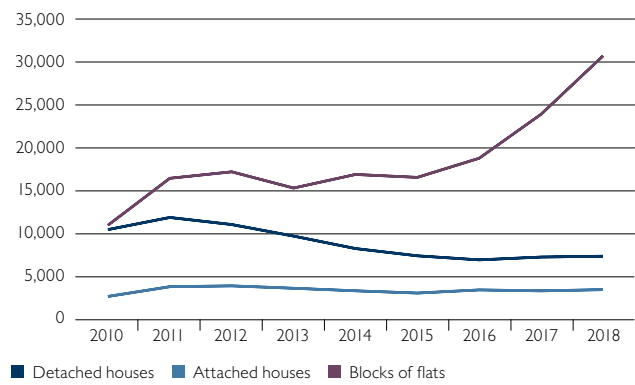
Population growth in the largest cities has supported rental growth despite rapid supply growth. Rents in the Helsinki metropolitan region continued to rise. Outside the Helsinki Metropolitan Region, the development of rents in the larger cities is becoming increasingly diverse. On average, rents in major cities outside the Helsinki metropolitan area rose by 0.6%.

Total dwelling completion in Finland soared by 20% year-on-year from January to December 2018 to 41,983. This is the highest amount of construction that has been ever recorded since 1995. Dwelling completion in detached houses saw a continuous decrease since 2011 and dropped by 38% during this period. In total approx. 7,500 dwellings were completed in 2018 for this type of building. While completion in attached houses had a minimal rise of 4% in 2018 compared to the previous year. The construction activity for this type of building has been very stable over the last 10 years and is still gaining high popularity among the Finnish population. Completions of blocks of flats rose strongly in the past 3 years to 30,881 units in 2018; an impressive increase of 28% compared to 2017. This is mainly due to the growing population in larger cities and Metropolitan areas like Helsinki, Lahti and Tampere.

Finlands positive housing market development has been encouraged by a decade of underbuilding. Less than 30,000 dwellings were completed annually from 1995 to 2000. From 2001 to 2009 average completions rose to 30,667 units per year. Finally, from 2010 to 2018, dwelling construction activity averaged 31,291 units per year.



FIG. 10: CONSTRUCTION ACTIVITY OF RESIDENTIAL DWELLINGS



High demand has increased construction costs and put pressure on returns on residential property. Due to the rapid growth in supply, expectations for rental growth are becoming more cautious. In all major cities, rental growth was stronger for larger apartments than for one room apartments. In the Helsinki metropolitan region, rents for larger apartments rose by 3.3% and in other major cities by an average of 2.8%.



FIG. II: RENTAL DEVELOPMENT HELSINKI BY APARTMENT TYPE

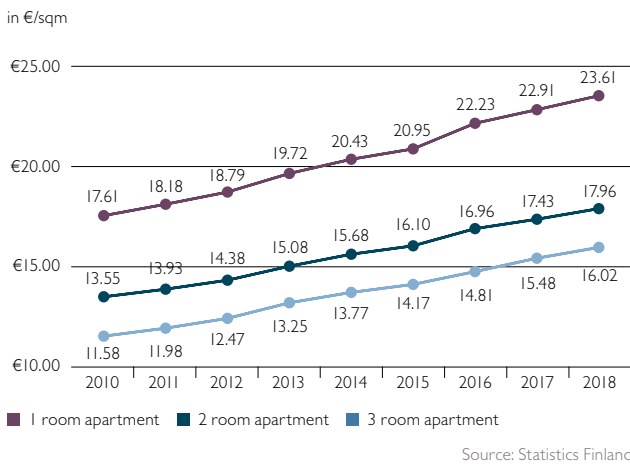


FIG. I2: RENTAL DEVELOPMENT JYVÄSKYLÄ BY APARTMENT TYPE

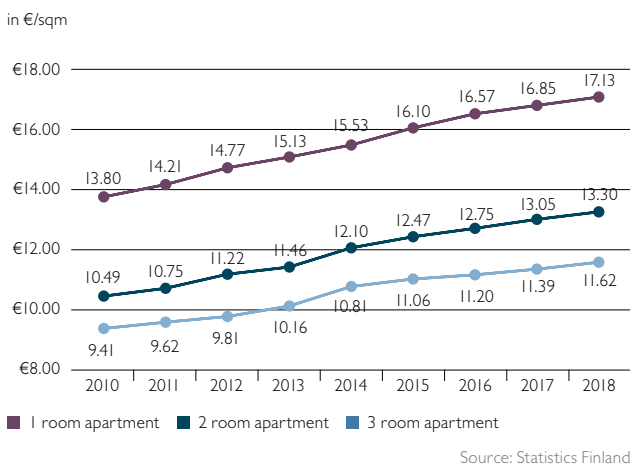
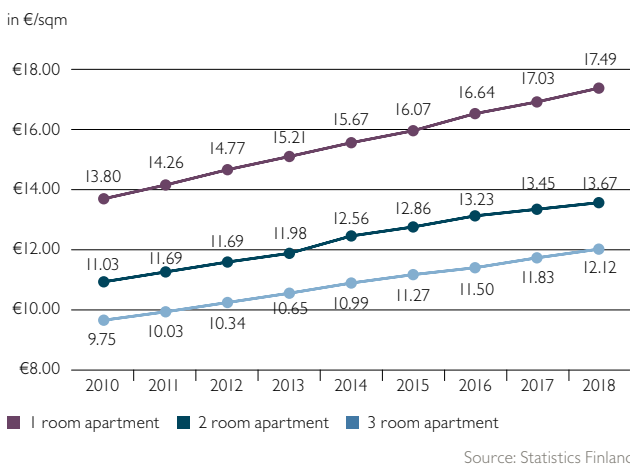


FIG. I3: RENTAL DEVELOPMENT TAMPERE BY APARTMENT TYPE



4 Conclusion

Real GDP Growth accelerated over the last years in Finland, driven mainly by private consumption and construction investment. Residential investment has bounced back amid brightening economic prospects and record-low interest rates. Exports have shown signs of revival as foreign demand recovered and competitiveness improved. The increase in labour-intensive activities, notably construction, combined with a stagnant labour force due to an ageing population has reduced unemployment. The economy is expected to continue to grow at a similar pace in 2019. Although domestic demand will be held back by slow income growth, brightening employment prospects, improved consumer confidence and low interest rates will support consumption and residential investment. Downside risks are the overall uncertainty related to the external environment and the outcome of the upcoming sectorial wage negotiations, which could weigh on the growth of export.

In total, there are some 854,000 rental apartments in Finland. Demand for rental housing remains strong, especially for small apartments in the major cities. During the past decade, nominal rents in the Helsinki metropolitan area have increased by approx. 3.8% annually on average. In other major cities, the increase has been slightly slower while the annual increase in rent has fluctuated between 2.5–3.5% on average.

Urbanization in Finland has been advancing a bit faster than in Sweden since the turn of the millennium and is expected to increase at the same pace it has been increasing in Finland over the last 20 years. Urbanization is estimated to have its largest effect in the Greater Helsinki, Turku, Tampere, Jyväskylä and Oulu regions. The increase of one and two person households is another remarkable trend in the Finnish housing market.



News:

Catella launches EUR 1 billion European housing fund for international investors

Catella Residential Investment Management GmbH (CRIM) launches its third European residential real estate fund. The “European Residential Fund III” invests primarily in modern, affordable apartments with stable cash flows as well as in student, serviced apartments for young professionals and senior housing properties. For the first time, the fund is structured as a Luxembourg SICAV-RAIF vehicle. The target group are German and international institutional investors. The target volume of the fund is at least one billion euros.

With the placement of its third open-ended residential fund, CRIM aims to build a European diversified Real estate portfolio and expects an average annual return of 5-6 percent. The European Residential Fund’s target markets are prospering

regions in Germany, Benelux, France and the Nordics. Up to 50% of the investments could be made in Spain, Poland and other economically strong regions in Europe.

Well-developed risk-management

Catella implemented the insights from Nassim Taleb’s Anti-fragility Research for residential assets, as well-developed risk management is key nowadays. Based on this research we can better manage the risks of residential real estate, which is essential in this part of the cycle. The investment strategy aims at long-term stable returns with minimized risk through the high diversification potential of the locally non-correlated residential real estate markets. Besides this research we are also using local ripple effects with the investment strategy to better react on market situations.

Strong European track record

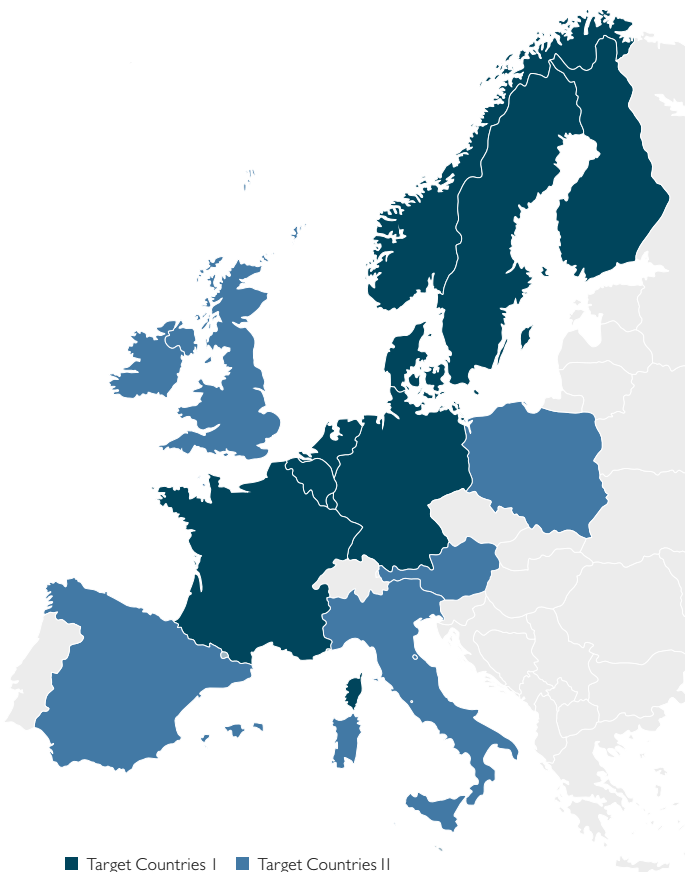
As a leading European residential manager Catella European Residential has successfully expanded its investment portfolios in recent years and launched its first billion EUR fund already in 2007 with net returns for the investors of 7.8% p.a. (since launch until end of March 2019). Since the fund was launched more than 10 years ago, it was systematically invested in prosperous economic regions and picked up on the trend of student housing at an early stage. The Team can also leverage on the build-up expertise of the first European Student Housing Fund, which was launched in 2013.

European Strategy

The launch of this new fund is part of Catella’s new European strategy. By combining Catella’s experience in international residential markets and expertise in residential (re)developments, with the knowledge of the local teams and their understanding of the local customers, Catella is confident that this new strategy will lead to an even stronger European organization and will be able to better serve its international clients. This new fund will also strengthen Catella’s European Residential platform across 9 countries.

Facts

Fund	Catella European Residential III
Legal Structure	Open real estate special fund (RAIF SCS)
Fund duration	open ended (“Evergreen”)
Target Volume	At least EUR 1 billion
Target Return	5.0–6.0% p.a. (Base-Case Szenario)
Dividends	~ 3.5%–4.0% p. a.



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