INREV RESEARCH & MARKET INFORMATION

INVESTOR UNIVERSE FINLAND SURVEY 2011

INREV

SEPTEMBER 2011

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INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate funds for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate funds market. The association's primary focus is on institutional investors, although other market participants such as fund managers, investment banks, lawyers and other advisors provide additional support.

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ACKNOWLEDGEMENTS

This report would not have been possible without the input and contribution of the institutional investors that provided data and information on their real estate investments, allocations and strategies. The contribution and efforts of all investors participating in this survey are highly appreciated.

The majority of respondents wished their identities to remain anonymous. Those contributing information are not responsible for the views expressed in this report.

EXECUTIVE SUMMARY

- This is the sixth report in a series of studies INREV is conducting to capture the size and composition of the European institutional non-listed real estate universe and the real estate strategies of institutional investors. This report provides estimates of the current and future size of the Finnish institutional non-listed real estate universe, the overall Finnish real estate market as well as the drivers behind these investments.

- The Finnish institutional market, estimated at €180 billion assets under management (AUM) is only a fraction of some of Europe's largest institutional markets, such as France (€2,300 billion), the UK (€1,560 billion), the Netherlands (€1,150 billion) and Germany (€1,100 billion). Pension funds and pension schemes together account for over 75% of the Finnish institutional universe. Life insurance companies, the most important investor group in France and Germany, are small in Finland.

- The Finnish institutional real estate universe is estimated at around €20 billion, which represents around 11% of the institutions' total assets. This is in line with the Netherlands, while other previously studied markets have real estate allocation below 10% of their total assets.

- Direct real estate investments, valued at approximately €15.9 billion, dominate the real estate exposure among institutional investors in Finland, accounting for almost 80% of the total real estate exposure.

- Non-listed real estate is a small but significant part of the institutional real estate investment market although only a few investors have an explicit investment allocation for non-listed real estate. Total non-listed real estate investments amount to approximately €3.7 billion, representing less than 2% of the institutions' total assets and around 18% of their total real estate exposure. Other pension schemes and life insurance companies have the highest allocation to non-listed real estate.

- Domestic real estate investments form the clear majority of real estate portfolios of Finnish institutions, with only 12% (€2.4 billion) of all real estate investments invested abroad. Domestic investments are mostly direct real estate investments, while none of the non-domestic investments have been made directly. Non-domestic investments have been made though a mix of indirect investments, but with non-listed property funds being the preferred route.

- The main real estate strategy for Finnish institutional investors is domestic direct core real estate investments, as they prefer to have control over their investments. The main constraints to invest in this sector are a perceived lack of control for the investor and the fee burden over the life cycle of the fund.

- Non-listed real estate investments are mainly made to get international diversification, to access new markets and access to leveraged funds. This is of particular importance to certain types of insurance companies who have restricted limits on leverage due to regulation.

- The stable returns from domestic direct real estate, in particular, have led to increases in the real estate allocations of many investors. The real estate universe of Finnish investors is expected to grow by around 21% over the next three years. This is due to the growth in assets under management and an increase in the real estate allocations of Finnish institutions. The non-listed real estate universe is expected to grow even stronger at 27% over the same period. The effect of regulatory changes on non-listed investments however remains unclear, which could have an impact on the realisation of this expected growth.

1 INTRODUCTION

1.1 Objectives and concepts

This report is the sixth in a series of studies to estimate the current and future size and composition of the European institutional non-listed real estate market and the strategies behind these allocations in the wider real estate universe. Previous studies have been conducted in the United Kingdom, Germany, the Netherlands, Sweden and France in 2010 – 2011.

The goal of this report is to estimate the size of the Finnish institutional investment market and, more specifically, the real estate allocations of Finnish institutional investors. The study provides estimates of the overall size of the Finnish non-listed real estate universe. The report also analyses the general approach Finnish institutions take towards real estate investments and how these strategies may change in the future.

The Finnish institutions covered in this survey are various types of pension institutions, life insurance companies and other insurance companies. Participating pension institutions include pension insurance companies, company and industry-wide pension funds, public sector pension institutions, and other pension institutions.

Real estate is defined to include both direct and indirect investments, mezzanine debt and senior debt (real estate) and unlike the previous studies also includes infrastructure. However, some investors hold infrastructure as a part of their other asset classes' allocation, instead of real estate allocation.

The direct real estate portfolio includes direct investments as well as, joint ventures and club deals – vehicles where investors keep direct control of their investments, either alone or jointly with other investors.

For the purpose of this study, the non-listed real estate universe covers non-listed vehicles / collective, limited partnerships, separate accounts, and funds of funds in real estate; vehicles where the power of managing real estate is transferred to a third person, either for the single investor or with other investors. The non-listed real estate universe does not include joint ventures (managed by a third party but in which the investors keep control of the investment management) or listed property companies. Securitised or private debt (real estate) and infrastructure constitute the third or last part of the real estate universe.

1.2 Methodology and sample

This study has been conducted by KTI Finland and follows a similar approach used in the five previous studies. The institutions covered in this study are those investors making multi-asset allocation decisions to meet a future liability, including pension schemes and insurance company funds. The study also includes the Finnish subsidiaries of foreign insurance companies, but not the foreign subsidiaries of the Finnish insurers. Charities, foundations, endowments and similar types of organisations, as well as private funds, are also included in the definition. The sample of the study is exclusively composed of institutional investors with assets under management of at least €100 million.

The survey addresses those funds in which institutional investors have responsibility for making multi-asset allocation decisions. The universe excludes the funds the insurance companies manage on behalf of other institutional investors to avoid double-counting, as well as funds managed on behalf of retail and private investors. Those funds where the decision to allocate capital to real estate is out of the investors' hands are excluded. Capital of banks and non-financial companies are not covered. By definition, the research relates to the capital of investors rather than that managed by fund managers.

The research draws mainly on an on-line survey and face-to-face interviews with representatives of Finnish institutional investors. Additional sources of information were also used to review institutional investor investments and allocations, drawing on their published annual reports and accounts.

Preliminary universe analysis identified 60 entities that were approached to participate in the survey. A total of 27 Finnish institutional investors provided data through an online questionnaire, face-to-face and telephone interviews. This sample comprises four pension insurance companies, ten other pension schemes, seven life insurance companies, five other insurance companies and one other institution. The data for this study was mainly collected in May and June 2011.

The sample of 27 entities represents approximately €165 billion of total assets under management. The amount of the Finnish institutional investment universe was estimated to be approximately €180 billion. This figure is clearly lower than in the other surveyed countries (France €2,300 billion, UK €1,560 billion, the Netherlands €1,150 billion, Germany €1,100 billion and Sweden €480 billion). The sample represents approximately 90% of the total Finnish institutional universe.

Section 2 of the report considers the total size (all asset classes) of the Finnish institutional universe, the total size of the Finnish real estate universe and the Finnish institutional investors' exposures to real estate. Section 3 presents the composition of the current real estate exposures and allocations of Finnish institutional investors and derives estimates on estimated figures for the total Finnish real estate universe with the types of real estate allocations and the allocations by type of investors. A detailed analysis of institutions' non-listed real estate target and current allocations is presented in Section 4, breaking down the sample's non-listed portfolios into different investment styles, property sectors, vehicles and areas. Section 5 examines the real estate strategies being adopted by the Finnish institutional investors and the role of non-listed real estate within these strategies, first pointing out the perceived attractions of investing in non-listed investments and, secondly, describing the disadvantages. In this chapter, also the investment strategies adopted by institutional real estate investors are discussed. In section 6 the study takes a prospective approach and presents indicative estimates of the future size and composition of the total real estate universe and of the non-listed real estate universe.

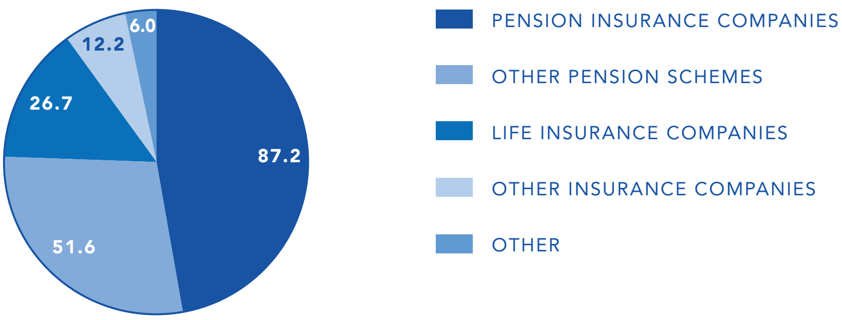
2 THE FINNISH INSTITUTIONAL UNIVERSE

2.1 Total assets

The total investment universe of the Finnish institutions is approximately €180 billion. As Figure 01 demonstrates, pension insurance companies are the largest players in the Finnish institutional investment market, representing around 47% of the total institutional investment universe, with more than €87 billion of assets. The other pension schemes together form the second largest group, accounting for approximately 28% (or €52 billion) of the total universe. Therefore, pension funds and pension schemes together account for over 75% of the universe. The Netherlands and UK pension institutions also have a dominant position in the institutional investment universe. In Sweden, France and Germany, however, pension institutions have a much smaller share of the overall institutional investment markets. In these three countries life insurance companies are the largest institutional investors. In the Finnish institutional investment universe, life insurance companies are not so important players, accounting for only 15% (or €27 billion) of the universe. These are followed by other insurance companies with a 7% share (around €12 billion), while the share of other institutions is only around 3% (or €6 billion). This heterogeneous group includes a large number of small funds, charities, trade unions, parish unions and other organisations.

FIGURE 01 / TOTAL FINNISH INSTITUTIONAL ASSETS BY TYPE OF INVESTOR

€ BILLION



2.2 The real estate universe

The Finnish institutional real estate universe is estimated to be approximately €20 billion. This means that real estate investments account for around 10.8% of all investments of the Finnish institutions. The share of real estate in Finland is slightly higher than in most of the other countries where INREV conducted Investor Universe Surveys (UK, France, Germany, and Sweden), where real estate accounted for less than 10% of the total assets. In the Netherlands, the share of real estate was almost similar at 10.5% of the total institutional universe.

Figure 02 illustrates the distribution of different types of asset classes in the portfolios of the institutional investors. Direct real estate investments account for around 8.6% (or €15.9 billion) of all assets. The role of non-listed real estate investments is rather small in the portfolios of the Finnish institutions. They represent only around 2.0% of all investments; less than €4 billion has been invested in the non-listed real estate (including funds of funds). The shares of listed and other real estate investments, including infrastructure, are minimal in the Finnish institutional multi-asset universe.

FIGURE 02 / TOTAL FINNISH INSTITUTIONAL ASSETS BY TYPE OF INVESTMENT

€ BILLION

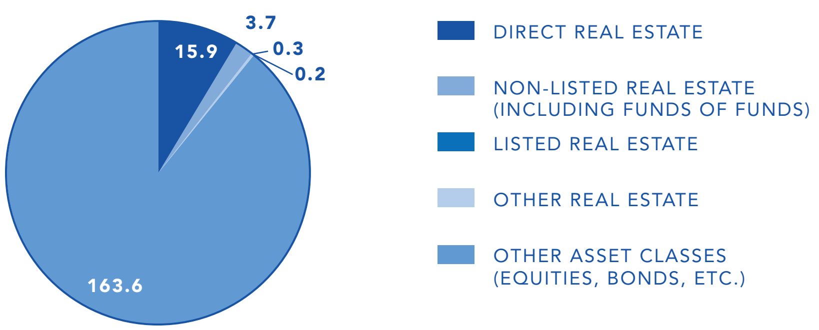


Figure 03 demonstrates the distribution of the Finnish institutional real estate universe. Pension insurance companies dominate the real estate universe accounting for more than 54% or €10.9 billion of the total universe. This is even more than their share (47%) of the total institutional multi-asset universe. Many Finnish pension insurance companies hold real estate, especially domestic direct real estate investments as an important role in their portfolios, and they have invested more in real estate during the last few years. On average, the pension insurance companies hold more than 12% of their total assets in real estate (see also Figure 04). Real estate as an asset class suits long-term investors, such as pension insurance companies, due to their long-term liabilities and also due to their higher resources in managing these labour intensive assets.

The other pension schemes, in contrast, have a smaller share of the real estate universe (20%) than of the total institutional multi-asset universe (28%). However, there is a lot of variation in the real estate exposure among this investor group. Some pension schemes have very small portion of their assets invested in real estate, while some smaller company or industry-wide pension funds, on the other hand, can have relatively high share of their overall assets invested in real estate.

The real estate investments of life insurance companies (€2.8 billion or 14%) are in line with their rank in total assets (15%). Other insurance companies hold approximately €1.4 billion of real estate assets, representing around 7% of the real estate universe – also this is in line with their share of total assets. Other institutions are estimated to have around €1.1 billion (or 5%) of their investments in real estate. However, the estimation of this share is challenging, because there is limited public information available on the real estate investments of many charities, foundations and other small institutions that are included in this diverse group.

FIGURE 03 / FINNISH INSTITUTIONAL REAL ESTATE BY TYPE OF INVESTOR

€ BILLION

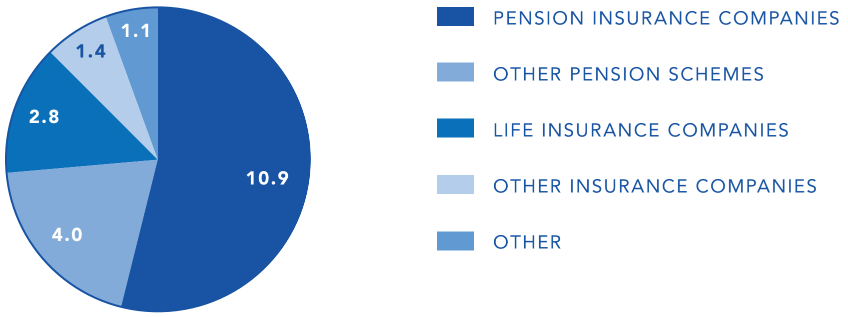
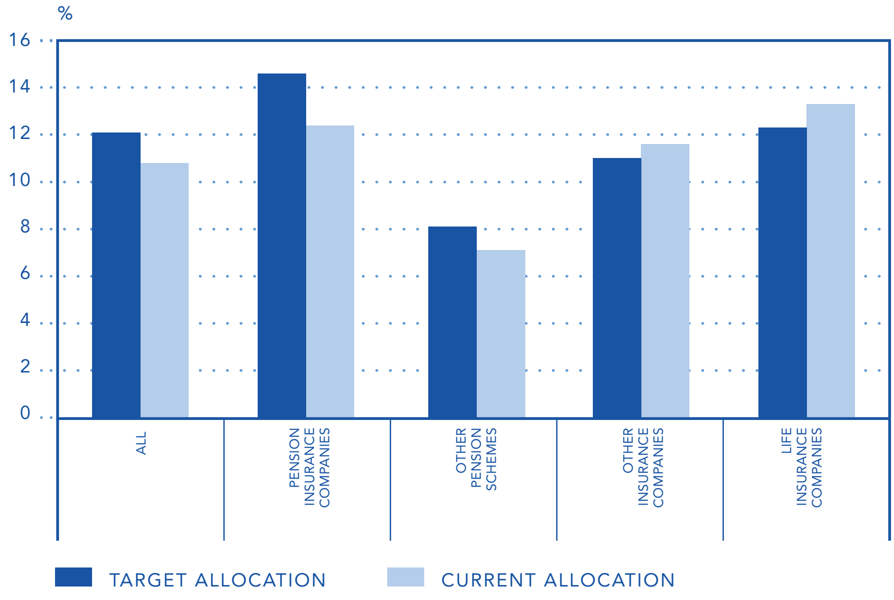


Figure 04 presents in more detail the target and current actual allocations of the different groups of institutional investors. On average, Finnish institutional investors have 10.8% of their portfolios allocated to real estate. The average target allocation is even higher, at 12.1%. Pension insurance companies have the highest target allocation (14.6%), but their average current allocation is significantly under the targets, at 12.4%. Life insurance companies and other insurance companies are likely to decrease their real estate allocations, as both groups have current allocation above the target allocations. The allocations of other pension schemes are well below all other investor types, having the current allocation only at 7.1%, with their target allocation at 8.1%. These allocation figures have not been calculated for "other institutions", to maintain the data confidentiality of individual investors.

According to the interviews, the risk-return profiles of the different asset classes are the most important drivers of target allocation levels. Some respondents said they had no specific target allocation for real estate investments. Some, typically smaller, institutions also had very broad target allocation ranges for real estate, for example between 10% and 20%.

FIGURE 04 / ALLOCATIONS TO REAL ESTATE BY TYPE OF INVESTOR*



* EXCLUDING ONE INVESTOR IN THE "OTHER" CATEGORY TO MAINTAIN DATA CONFIDENTIALITY

2.3 The non-listed real estate universe

The total non-listed real estate investments of the Finnish institutions are estimated at around €3.7 billion. Some institutions find non-listed real estate a very crucial part of their investment strategy, and put a great effort on continuously searching for non-listed real estate investment opportunities. On the other hand, others consider that the risk-return profile of non-listed real estate investments is not very attractive, and therefore invest very little – if anything at all – in non-listed real estate.

Figure 05 shows that pension insurance companies are the largest investor group also in non-listed real estate, but their share is only 36% – much smaller compared to their 47% share in the total multi-asset universe and 54% share in the total real estate universe. Other pension schemes have almost as much exposure to non-listed real estate investments as pension insurance companies with €1.2 billion or 33% of the total non-listed real estate. Life insurance companies are also higher represented in non-listed real estate compared to all real estate, having a 22% share of the non-listed universe. Other insurance companies represent around 7% of the non-listed universe, while other institutions have only a very small role in this market.

FIGURE 05 / FINNISH INSTITUTIONAL INVESTOR NON-LISTED VS TOTAL REAL ESTATE

€ BILLION

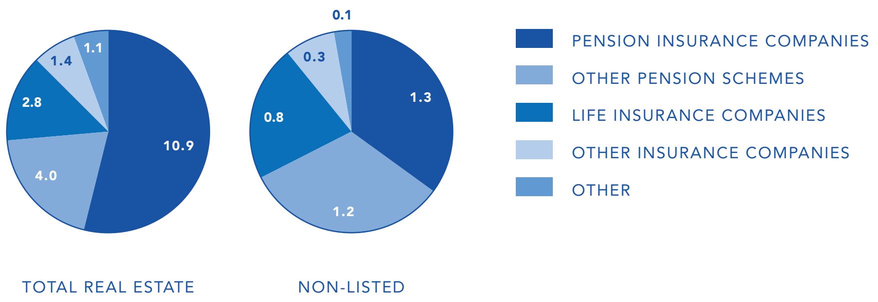
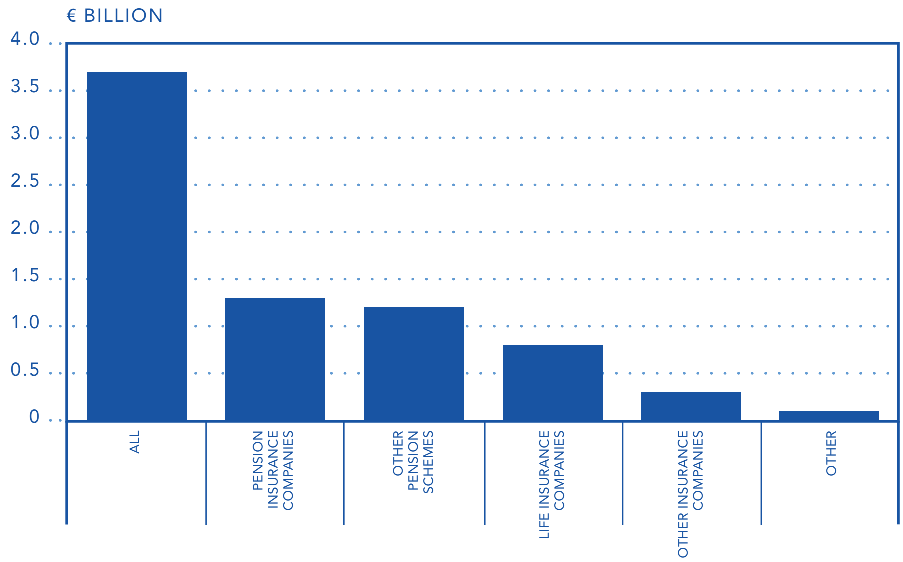


Figure 06 demonstrates that pension insurance companies and other pension schemes hold €1.3 billion and €1.2 billion, respectively, in non-listed real estate. Life insurance companies hold almost €800 million and other insurance companies less than €300 million in non-listed vehicles. These shares illustrate the different strategies and investment horizons of different investor groups.

FIGURE 06 / NON-LISTED REAL ESTATE UNIVERSE BY TYPE OF INVESTOR



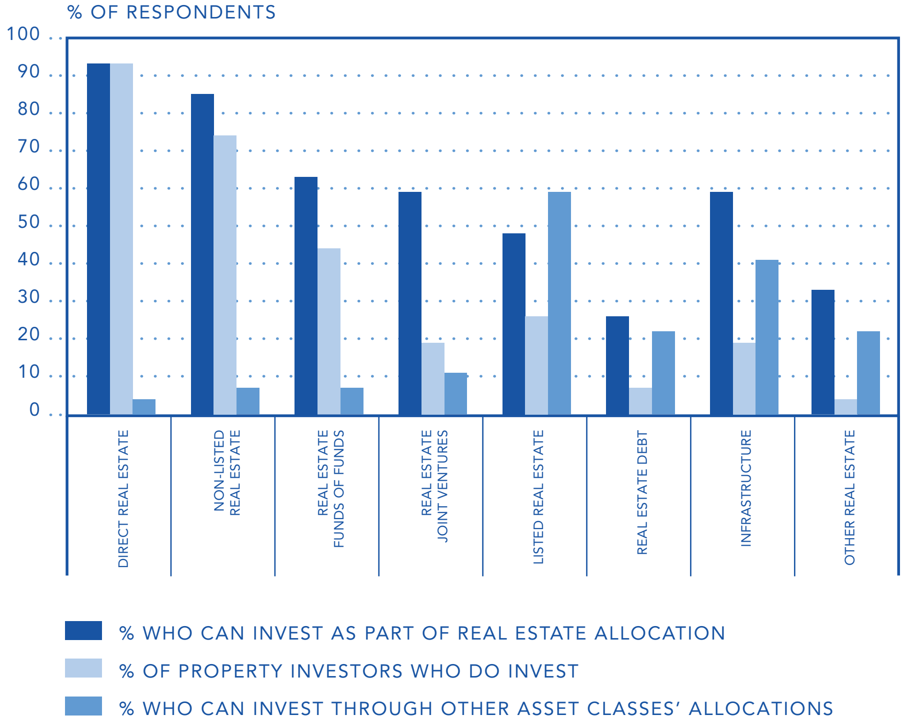
3 REAL ESTATE EXPOSURE

3.1 Type of real estate investments

As a part of the survey, the investors were asked about the different types of real estate they invest and whether they had a mandate to invest in certain property types with a given risk-return ratio and if they currently actually invest in these types.

According to the survey, direct real estate is the most popular type of real estate investment among the Finnish institutions. Almost all of the respondents have mandate to invest in direct real estate as part of their real estate allocation, and all of those who can, actually do so. This is in line with the results of the corresponding surveys that INREV has conducted in the five other countries.

FIGURE 07 / REAL ESTATE INVESTMENTS THROUGH REAL ESTATE OR OTHER ALLOCATIONS



The vast majority, 85% of the respondents, are also able to invest in non-listed real estate vehicles, and 74% actually do invest in them. Almost two thirds (63%) of the respondents can also invest in funds of funds, but less than half (44%) actually do. Some respondents argued that the most important reason for not investing in these vehicles is the unattractive fee structure. The reasons for investing or not in non-listed real estate are discussed in more detail in section five of the report.

More than half of the institutions can also invest in joint ventures and infrastructure as part of the real estate allocation, but only less than 20% do. Infrastructure investments are, however, often part of other asset classes' allocations, and all the respondents did not have exact information about the investments in other asset classes.

The role of listed real estate is also quite small - only 26% of the respondents said they do invest in listed real estate vehicles as part of their real estate allocation. Listed real estate is also often part of equity allocations. The role of real estate debt and other real estate investments is generally small in institutional investors' property portfolios.

FIGURE 08 / TYPES OF REAL ESTATE EXPOSURE

€ BILLION

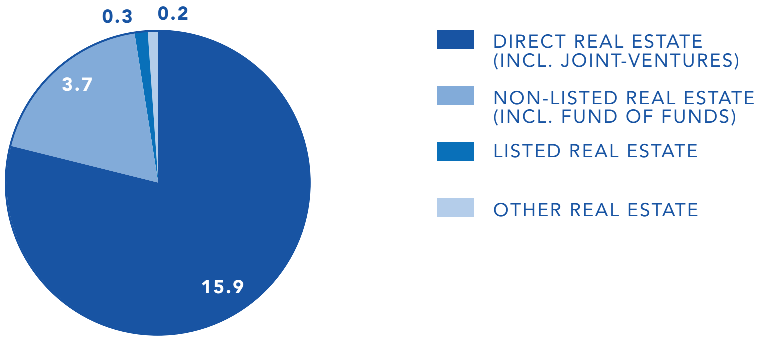


Figure 08 demonstrates the great importance of the direct investments in Finnish institutions' real estate portfolios. Approximately €15.9 billion (or 79%) of the institutional real estate universe is estimated to be invested in direct real estate. This figure includes joint ventures, but their share is very small. Non-listed real estate (including funds of funds) represents €3.7 billion (or 18%) of the total real estate universe. Listed real estate investments and other real estate investments account for only around €300 million and €200 million, respectively.

3.2 Current real estate exposures by type of institutional investor

Direct real estate is the most important type of real estate investment for all different groups of institutional investors (Figure 09 and 10). Pension insurance companies hold as much as 85% of the real estate investments in direct real estate, while the other pension schemes have the lowest exposure for direct real estate investments, at 66%. Non-listed real estate investments are most popular among pension schemes and life insurance companies, representing approximately 30% of the total real estate assets of both of these investor groups. Listed real estate and other real estate investments play a very small role in all investor groups.

FIGURE 09 / DISTRIBUTION OF REAL ESTATE BY TYPE OF INVESTOR

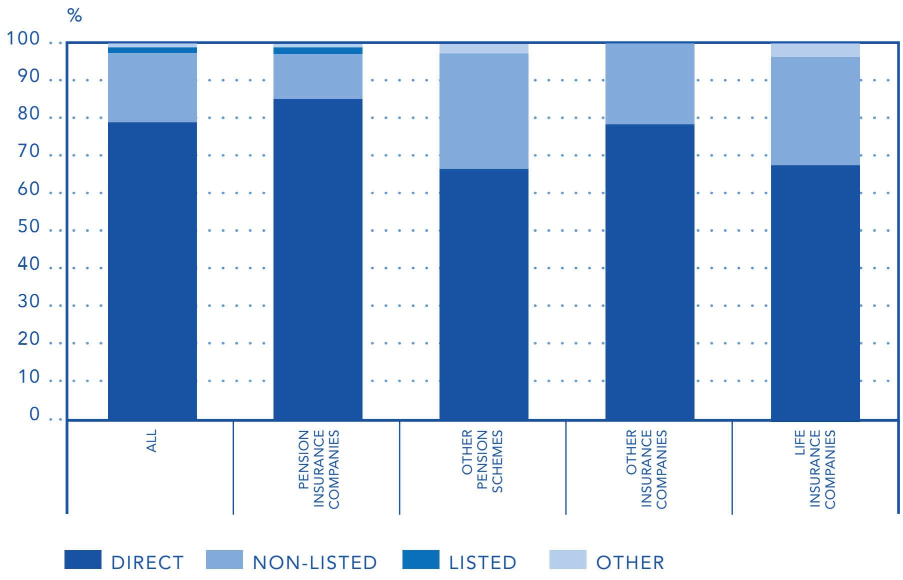
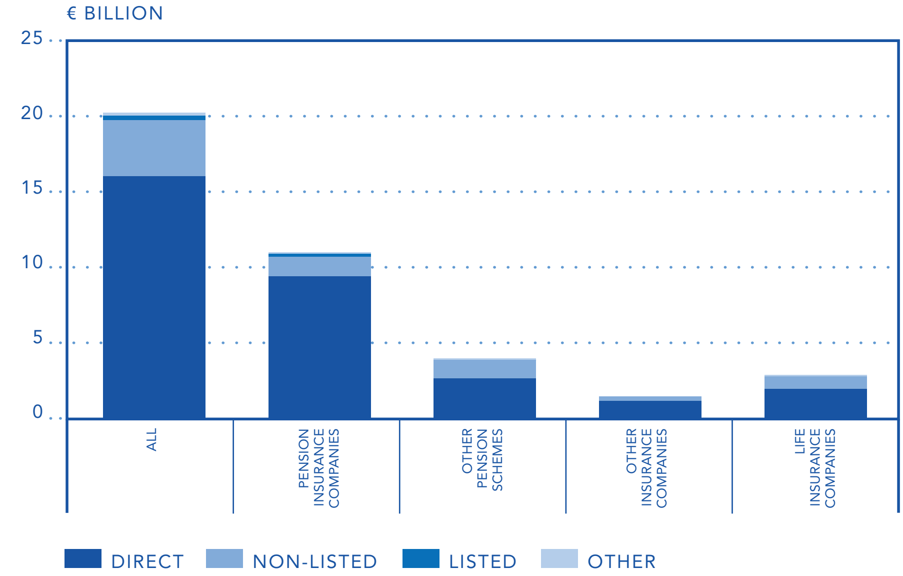


FIGURE 10 / REAL ESTATE EXPOSURE BY TYPE OF INVESTOR



3.3 Non-domestic real estate exposures

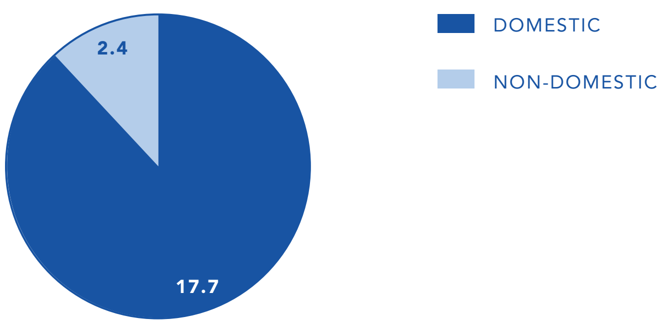
Figure 11 shows that domestic real estate investments dominate the real estate portfolios of Finnish institutions. Only €2.4 billion or 12% of all real estate investments are invested abroad.

Domestic investments are mostly direct real estate investments, while most of the non-domestic investments are made through non-listed property funds. Some non-domestic investments have also been made through funds of funds, listed real estate and infrastructure investments. None of the Finnish institutions have made direct real estate investments outside of Finland.

Non-domestic investments are mostly targeted at other European countries. It is typically the first and for some, the only, non-domestic market that investors enter. About one third of the interviewed respondents of the survey also have some investments in Asia. A few respondents estimated that they will probably increase the share of Asia in their real estate portfolios during the next three years. In contrast, so far only a few institutions have invested in the US market or elsewhere in the Americas. However, a few respondents remarked that they might consider entering the US market in the next three years. Brazil was also mentioned as one potential future geographical area. Some investors noted that although they wanted to have international exposure due to diversification benefits, the size of the portfolios did not allow for truly global exposure.

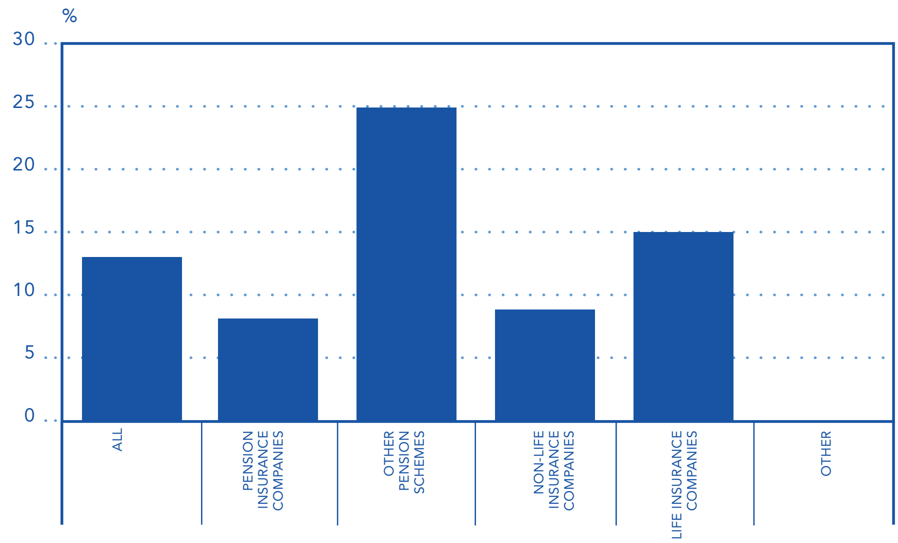
FIGURE 11 / NON-DOMESTIC AND FINNISH INSTITUTIONAL REAL ESTATE

€ BILLION



Exposure to non-domestic markets is the highest for other pension schemes – they hold 25% or €983 million of their real estate investments abroad (Figure 12). Life insurance companies hold 15% (€415 million) abroad, but other insurance companies and pension insurance companies have invested only 9% (€121 million) and 8% (€880 million), respectively, of their real estate assets outside of Finland.

FIGURE 12 / NON-DOMESTIC REAL ESTATE EXPOSURE BY TYPE OF INVESTOR

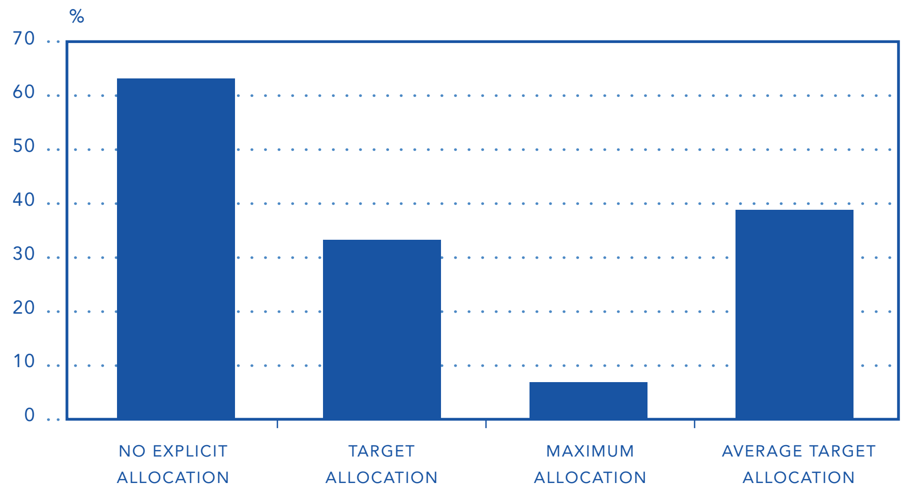


4 THE NON-LISTED REAL ESTATE UNIVERSE

4.1 Targets and maximum allocations on non-listed investments

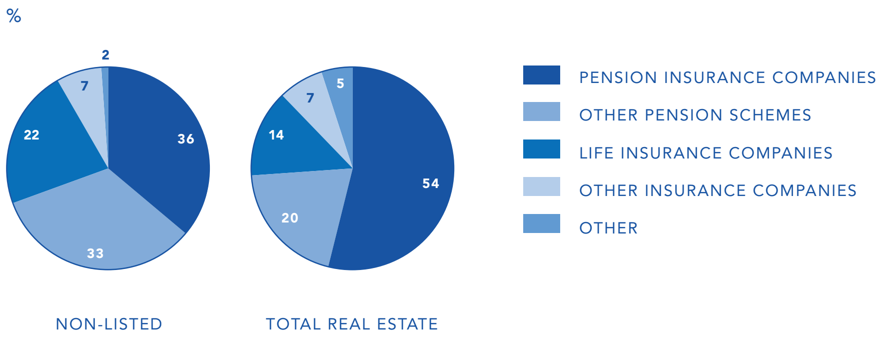
Almost two-thirds of the respondents that currently invest in non-listed real estate do not have an explicit allocation or target for this part of their portfolio. A third has a target allocation and 7% have a maximum allocation to non-listed real estate. Those with no target, however, often have an informal understanding of what the limits are. Some of these investors said that they intentionally do not have specific allocations in order to be able to make the best investments independent of the vehicle type or being tied to specific boundaries. Others mentioned having a target allocation for all indirect real estate investments covering both listed and non-listed real estate.

FIGURE 13 / TARGET ALLOCATIONS TO NON-LISTED REAL ESTATE INVESTMENTS



In theory large institutions have their own staff and should have the resources to run a direct portfolio, while smaller investors with less staff should be more interested in non-listed investments as the best approach. This broadly seems to be the case in the Finnish institutional investor universe. Analysing Figure 14 (page 18), at 36% pension insurance companies are under-represented in the non-listed sector compared to the overall real estate universe (54%) and other pension schemes are over-represented in the non-listed universe (33% and 20%).

FIGURE 14 / EXPOSURE TO REAL ESTATE AND NON-LISTED REAL ESTATE BY TYPE OF INVESTOR

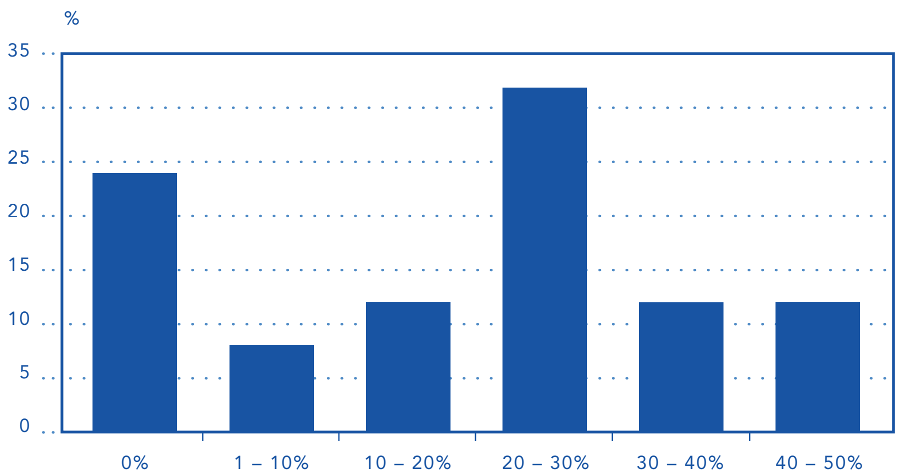


However, several of the smaller investors also report large direct portfolios, compared to their overall size, and relatively small non-listed investments. Smaller institutions are still interested mainly in investing in domestic direct real estate and less so in obtaining for example international diversification for their real estate portfolio through non-listed real estate investments.

4.2 Variation in exposures to non-listed universe

Respondents use different ways to invest in real estate. Only one of the Finnish institutional investors in our sample had an exclusively indirect exposure to real estate. Finnish institutional investors typically have a predominantly direct approach to investing in real estate or a model that combines direct and indirect investments. Overall six (24%) of the respondents with direct investments into real estate have no exposure at all to non-listed real estate. About 32% have an exposure between 20 – 30%, with exposures between 1 – 20% and 30 – 50% fairly evenly distributed around this most typical range of exposure of approximately 12%.

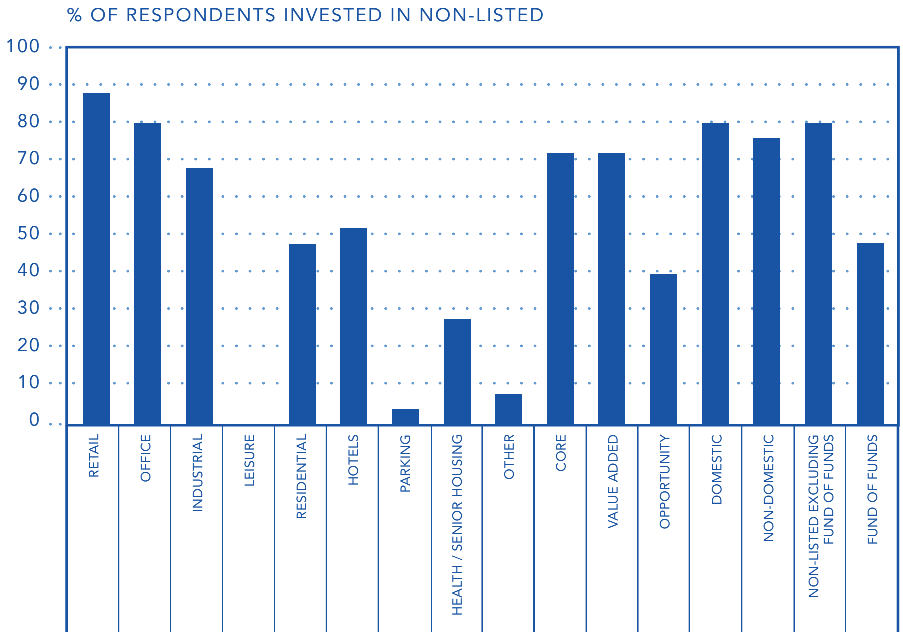
FIGURE 15 / FREQUENCY DISTRIBUTION OF NON-LISTED EXPOSURES TO REAL ESTATE OF DIRECT INVESTORS IN THE SAMPLE



4.3 Types of exposure to non-listed vehicles

Figure 16 illustrates that most investors with exposure to non-listed funds are invested in the three main commercial real estate sectors – retail, office and industrial. However, some investors commented that they have strong domestic direct portfolios in these sectors and do not want their non-listed investments to compete for the same properties as their direct portfolio. Therefore, investments in these sectors would mostly be non-domestic. Investments into non-listed real estate are made both through single sector and multi-sector funds. Some interviewees said they would prefer to invest through single sector funds to obtain access to specialist management but mentioned that these can sometimes be problematic if the sector performs poorly during the lifetime of a finite life fund.

FIGURE 16 / TYPES OF NON-LISTED INVESTMENTS



Core and value added investments were the most frequent investment styles with 72% of the respondents having these types of investments. Only 40% of the respondents report having opportunity funds in their non-listed real estate portfolio. In the interviews some investors commented that their strategy for investing in non-listed aimed at obtaining higher returns by investing in funds in the higher end of the risk spectrum. Others preferred to invest in non-listed pursuing the same low-risk strategy as for their direct investments.

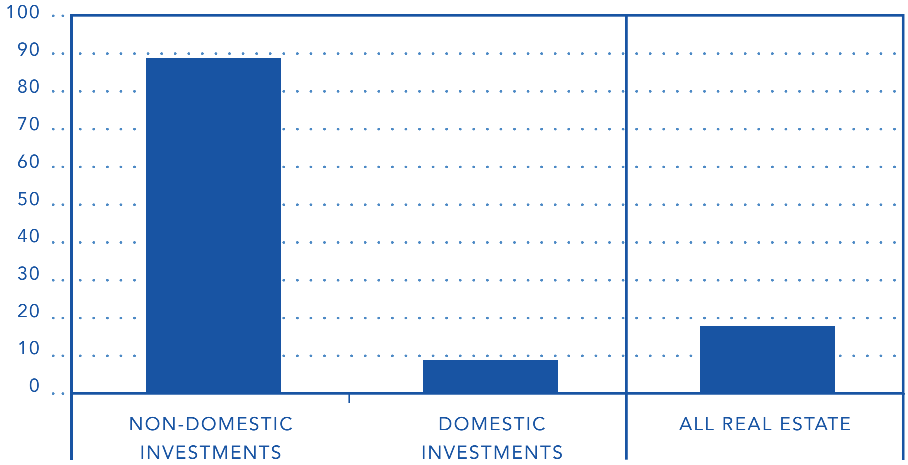
Most of the respondents have both domestic exposure (80%) and non-domestic exposure (76%) in their non-listed real portfolios.

About half of the respondents (48%) invest in real estate through funds of funds. The reasons for not investing in funds of funds include the dual layer of fees as well as lack of interest in diversifying a small real estate portfolio internationally. Some of the respondents who are currently invested in funds of funds indicated that they would probably not invest in funds of funds in the future. These investments have primarily been made to enter new markets where it is expected that future investments will be made directly into non-listed real estate funds.

Examining Figure 17, Finnish investors typically invest internationally through non-listed real estate vehicles – currently 89% are made through non-listed funds (including funds of funds). Only a small percentage (9%) of the domestic exposure of the survey respondents is through non-listed vehicles as the majority have strong domestic direct portfolios. Around 18% of the overall real estate exposure of the survey respondents is through non-listed.

FIGURE 17 / NON-LISTED EXPOSURE IN DOMESTIC AND NON-DOMESTIC VEHICLES

% OF € BILLION

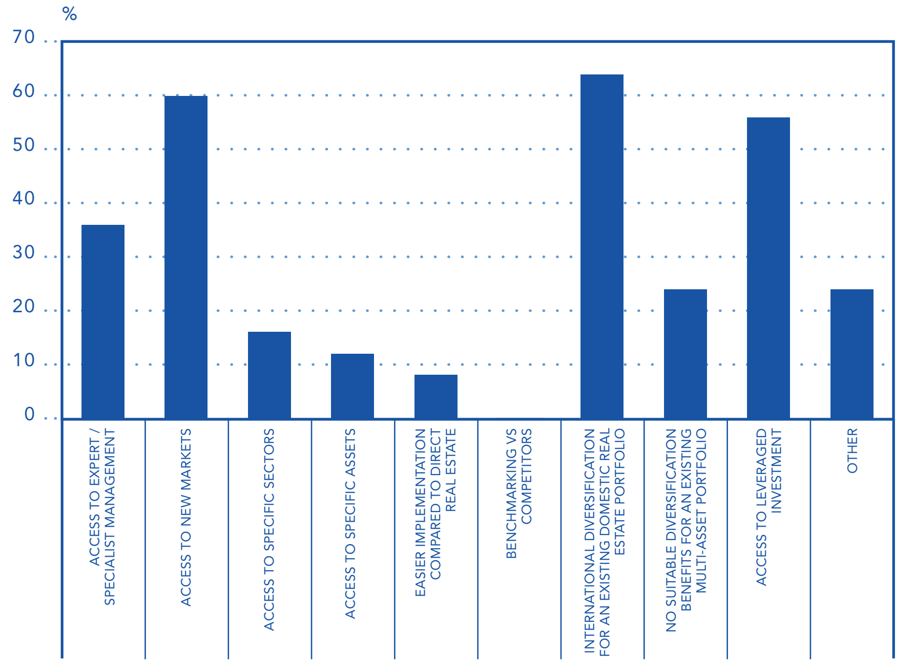


5 REAL ESTATE STRATEGIES AND THE PROS AND CONS OF NON-LISTED REAL ESTATE FUNDS

Investors that can invest in non-listed real estate vehicles were asked to list the three most important reasons for investing in this type of real estate, regardless of whether they currently hold non-listed real estate investments. As Figure 18 shows the primary motives for using non-listed real estate vehicles are to obtain international diversification for an existing domestic real estate portfolio (64%), access to new markets (60%) and access to leveraged investments (56%). Access to leveraged investments was primarily listed by certain types of insurance companies who are limited by the Finnish legal and regulatory system to use leverage. These funds more often seek to obtain higher returns through leveraged funds compared to the domestic direct portfolio. International diversification was held as important by all types of investors but less by the smaller investors.

Only 8% saw non-listed real estate vehicles as easier to implement than direct real estate investments. Nearly all the investors already had direct real estate portfolios including the structures and resources to manage them. It was noted that different skills are needed for the management of direct and indirect portfolios and that some investors did not currently have sufficient resources to choose and supervise a large number of non-listed investments. Access to specific sectors and specific assets was, by most investors, not seen as an important factor when making the choice to invest in non-listed real estate.

FIGURE 18 / REASONS FOR INVESTING IN NON-LISTED REAL ESTATE



5.1 The obstacles of investing in non-listed real estate vehicles

Only two investors in the sample cannot invest in non-listed real estate vehicles. The main disadvantages of investing into non-listed real estate vehicles were also discussed in interviews with investors who do invest in non-listed real estate vehicles.

Lack of control and the overall fee burden over the life of a fund are seen as the main downsides of investing into non-listed real estate vehicles. Management fees and costs are seen as especially problematic during a period when there is little capital growth and the benefits of leverage are eaten by the management fees. While investors are willing to pay for expert management the fees are currently too high compared to the returns of the funds.

Investors, not only in Finland, have been increasingly concerned about lack of control in funds. Some of the interviewed investors mentioned that they would only invest in funds if they can have a place on the advisory board or the investment committee. They added that in the future they would prefer to invest through smaller vehicles such as club deals. Others mentioned that they did not have the internal resources for the degree of investor involvement that is needed in club deals and joint ventures. These types of investors would prefer to invest through non-listed funds also in the future. There have also been questions about the property expertise of some of the managers that set up funds during the boom period of 2005 – 2007 when most of the current funds were launched.

Lack of liquidity in the secondary market is seen as a problem as well as the current lack of interesting products in the market. Fund returns are also seen as quite volatile, an issue that has been exacerbated by high use of leverage.

5.2 Investment strategies

Many of the participating investors, particularly pension insurance companies, follow a predominantly direct core strategy. When it comes to real estate investment, respondents offered a number of reasons for the high proportion of direct property holdings. Most prefer having control over investments. They also prefer the core strategies, while value added and opportunistic investments are less common.

Direct investments are also predominantly domestic. The Finnish real estate market has been shown to be a stable market relative to other countries and it is the market where the investors have local knowledge. Also, the real estate sector has proved to be a good diversifier for other asset classes.

Non-listed is seen by Finnish investors mostly as a method of obtaining international exposure, and in some cases, diversifying the domestic real estate portfolio. This is reflected for example by the large number of investors considering access to new markets as one of the major benefits of non-listed real estate vehicles. However, these investments only serve as supplements to a core domestic investment strategy.

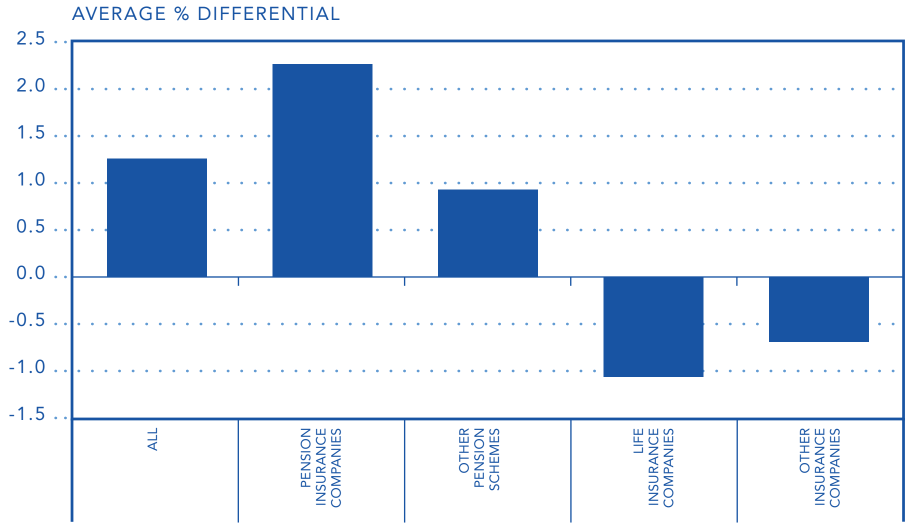
Another explanation for the larger direct domestic portfolios is historic reasons. Investors who have built their direct real estate portfolios and the expertise to manage them prefer to keep them. Those that have more recent real estate portfolios are more likely to have higher allocation to non-listed real estate.

6 THE PROSPECTIVE REAL ESTATE AND NON-LISTED UNIVERSE

6.1 Prospective changes in real estate exposures and allocations

Figure 19 shows the difference between current exposures and the target allocations to real estate of the different investors. Information is presented on a weighted basis. A positive percentage means that the fund is currently under-exposed to real estate. Overall the exposure of all real estate investors is below the target by 1.25 percentage points. Pension insurance companies are most under allocated to real estate by 2.25 percentage points. Life insurance and other insurance companies are the only investors group that is currently over-exposed to real estate.

FIGURE 19 / DIFFERENCE BETWEEN CURRENT EXPOSURE AND TARGET ALLOCATION TO REAL ESTATE*



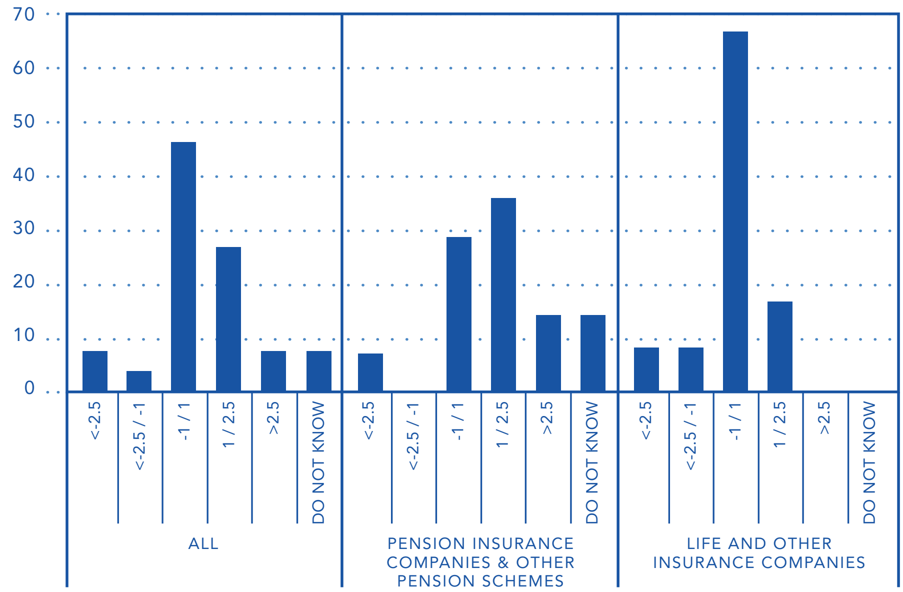
* EXCLUDING ONE INVESTOR IN THE "OTHER" CATEGORY TO MAINTAIN DATA CONFIDENTIALITY

There are several factors behind these differences:

- Some investors have recently increased their allocation to real estate, particularly direct real estate, as it has been seen as a relatively stable asset class in Finland during the financial crisis;
- Some investors are intentionally under-allocated as real estate investments are typically rather illiquid and therefore difficult to dispose of in case of over-exposure;
- New regulation such as Solvency II has affected the target allocation of insurance companies.

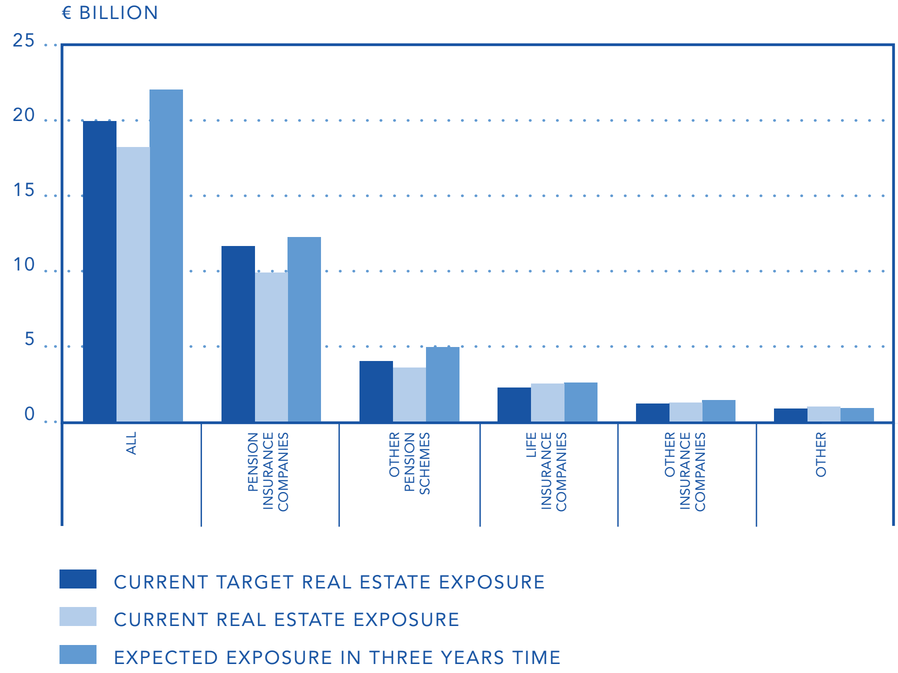
Looking ahead to the next three years Figure 20 illustrates the changes in real estate allocations. Less than half of the investors (44%) expect their real estate allocations to remain unchanged. The majority of pension institutions have indicated that their real estate allocation is expected to increase moderately as real estate offers an attractive risk return profile as well as diversification benefits.

FIGURE 20 / EXPECTED CHANGES IN ALLOCATION TO REAL ESTATE IN THE NEXT THREE YEARS



Overall investors expect their assets under management to grow approximately by 13.7% over the next three years. This figure is based on the average estimates of the respondents of the survey. This would result in a growth of assets under management to approximately €207 billion. In addition, Finnish institutional investors are expected to make moderate increases to their allocations to real estate. This could lead to an overall real estate universe of €24.3 billion in three years time, an overall growth rate of 21%. This prospective growth can be split by 61% due to increases in assets under management and 39% due to increased real estate allocations.

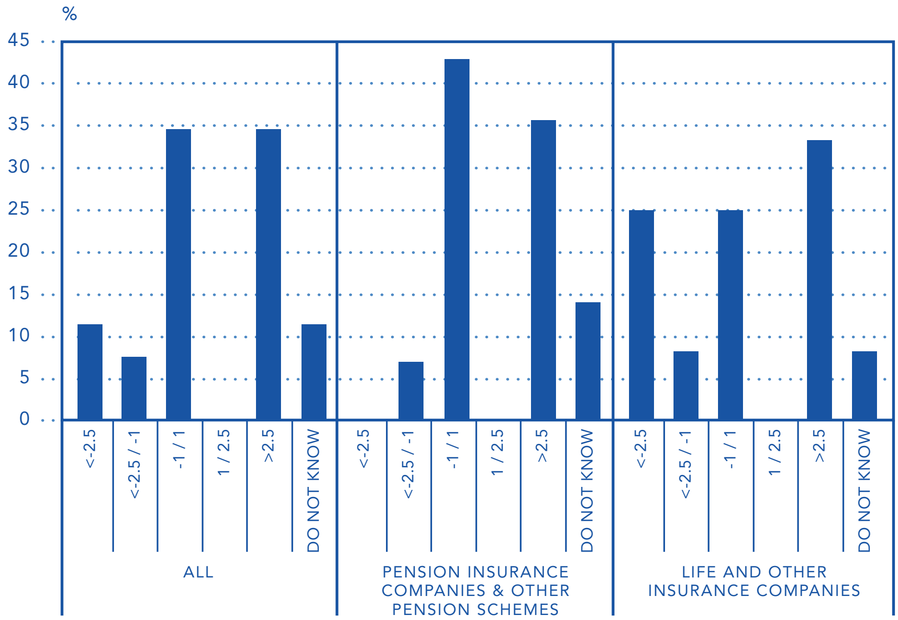
FIGURE 21 / CURRENT AND EXPECTED EXPOSURE TO REAL ESTATE



6.2 Prospective changes in exposure to non-listed real estate

Investors in the survey were asked how much they expected the proportion of non-listed in their real estate portfolios to change over the next three years. The responses are summarised in Figure 22. Overall the results presented a mixed picture. Pension institutions expect their allocations to remain mostly unchanged or increase more than 2.5 percentage points. Only one pension institution expects their allocation to non-listed to decrease. Life and other insurance companies, however, have a clear split between those that expect their allocation to decrease more than 2.5 percentage points and those that expect it to increase also by over 2.5 percentage points over the next three years. None of the respondents projected modest increases of 1.0 – 2.5%.

FIGURE 22 / EXPECTED CHANGES IN THE NON-LISTED PROPORTION OF REAL ESTATE



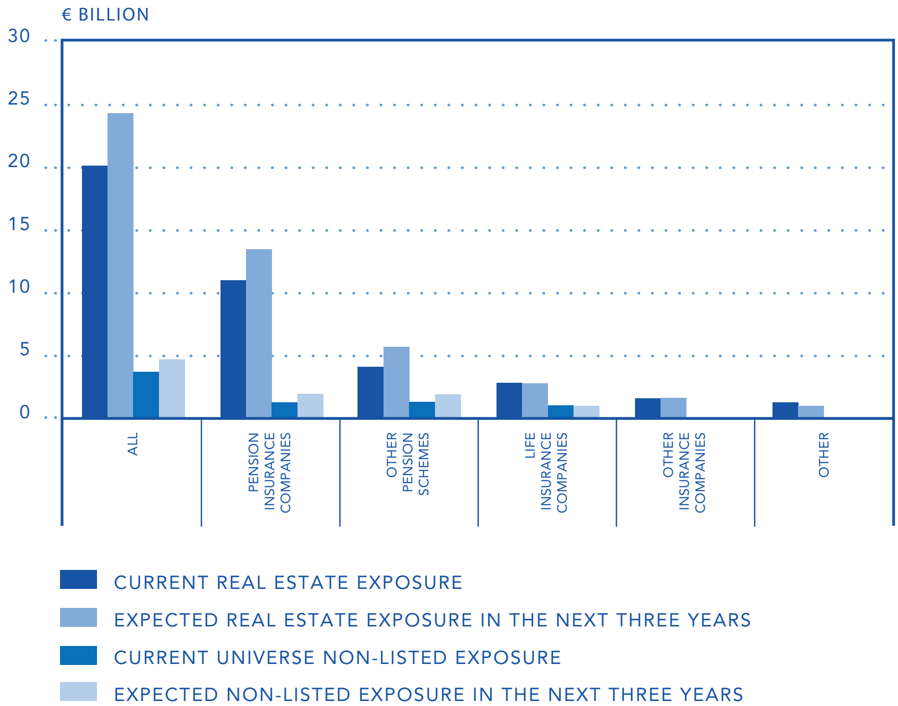
Some of the investors interviewed mentioned that they expect most of the growth of their real estate portfolio to come through indirect investments including both listed and non-listed. Others expected growth due to remaining existing commitments into funds that still have uncalled capital.

In the interviews it also became clear that many investors see clear downsides to investing into non-listed funds. When comparing direct and non-listed investments investors noted the continuous net income from direct property returns and typically more stable capital values. Some have been disappointed by the returns of non-listed funds and plan to reduce their allocation to non-listed. In the past one of the main reasons for investing into non-listed was to have access to leveraged investments and through them, higher returns. Investors recognise that recent market circumstances have contributed to these low returns but others point out that they can make similar returns through direct investments. The investors that plan to reduce their allocation to non-listed indicated that in the future they would be more critical of making investments into non-listed funds in terms of manager selection, investor due diligence and ensuring sufficient in-house resources to oversee these investments.

Typically institutional investors did not expect any major changes to distribution of their non-listed investments in terms of regions or sectors. Many investors did not wish to over-diversify their portfolios and preferred to stay in familiar domestic or European markets. Others, typically the larger investors that made their first investments into the Asian market through funds of funds indicated that in the future they would invest into this market through direct funds rather than funds of funds. The United States was mentioned as a possible target for future investments, but not necessarily in the three year time period discussed and perhaps not initially through non-listed vehicles.

Overall the current real estate exposure of all institutional investors is €20.1 billion and the total non-listed exposure is estimated to be €3.7 billion. The non-listed exposure is expected to grow by 27% to approximately €4.7 in three years time. All types of investors with the exception of other insurance companies and "other" institutional investors are expected to increase their non-listed real estate exposure.

FIGURE 23 / CURRENT NON-LISTED AND EXPECTED EXPOSURE IN THE NEXT THREE YEARS



These estimates of both the expected changes to the real estate universe as well as to non-listed exposure should be viewed with caution as there are several opposing influences on the future non-listed allocations of institutional investors.

On the one hand, interviewees commented that the financial crisis and subsequent recession has led to an overall positive view of real estate investments in general and direct real estate more in particular. These investors mentioned that they would expect to increase their direct portfolio. On the other hand, some of the larger institutional investors already have strong domestic portfolios and therefore are expecting most of the increase in their real estate allocation to come from non-listed investments.

Many investors currently have made commitments into funds that have not been called in and it is not clear whether there will be further capital calls. Some funds are still in their commitment/investment periods and, in others, these may be extended.

Also, the effects of regulations, such as Solvency II, Basel III and AIFM directive on the investment allocations of Finnish institutional investors are still unclear and investment strategies are undergoing a process of change. This will affect the overall approach to real estate investments and future investments into non-listed real estate.