



# Development of the Public Real Estate Equity Investment Sector in Finland

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## Introduction

- Two main categories of real estate investments
  - Direct
  - Indirect

	Private	Public
Equity	-Direct investment -Shares in REC and MREC -Shares in unlisted instruments -real estate investment companies -funds etc.	-Shares in listed real estate investment companies (-Shares in FinnREITs)
Debt	-Mortgages held by financial institutions	



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## Regulation of public real estate equity investments

1. Public real estate investment companies (PREICs)
  - Regulated according to the same laws as other public companies (e.g. Finnish Companies Act, Securities Market Act, Accounting Act and Ordinance)
  - Requirements of minimum capital for the company, dividend sharing, trade and marketing of shares, appreciation of assets (until 2005 book value, thereafter market values)
  - Taxation: 26 % on profits generated by the company and shareholders are liable to pay tax on dividends.

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## Regulation of public real estate equity investments

2. Finnish real estate trusts (FinnREITs)
  - Real Estate Investment Trusts Act enacted in 1997.
    - public limited liability company and imposed to the same legislation as PREICs. In addition, REIT Act imposes some additional regulations for the operation of FinnREIT.
      - Asset classes and regional division
      - Development restrictions
      - Requirements on market information and valuation
      - Minimum equity capital (5 million euros), leverage 1/3, or 2/3

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## Regulation of public real estate equity investments

- Law was ammended in 2007 to enable FinnREITs to operate in form of limited partnership (no double taxation)
- By this far, no FinnREITs in Plc-form have been established.
  - Stricter regulation then for PREICs, but still the same double taxation -> no taxational or operative incentive to establish FinnREITs.
- Thus, shares in PREICs are the only form of public real estate equity that exists in the Finnish real estate markets.



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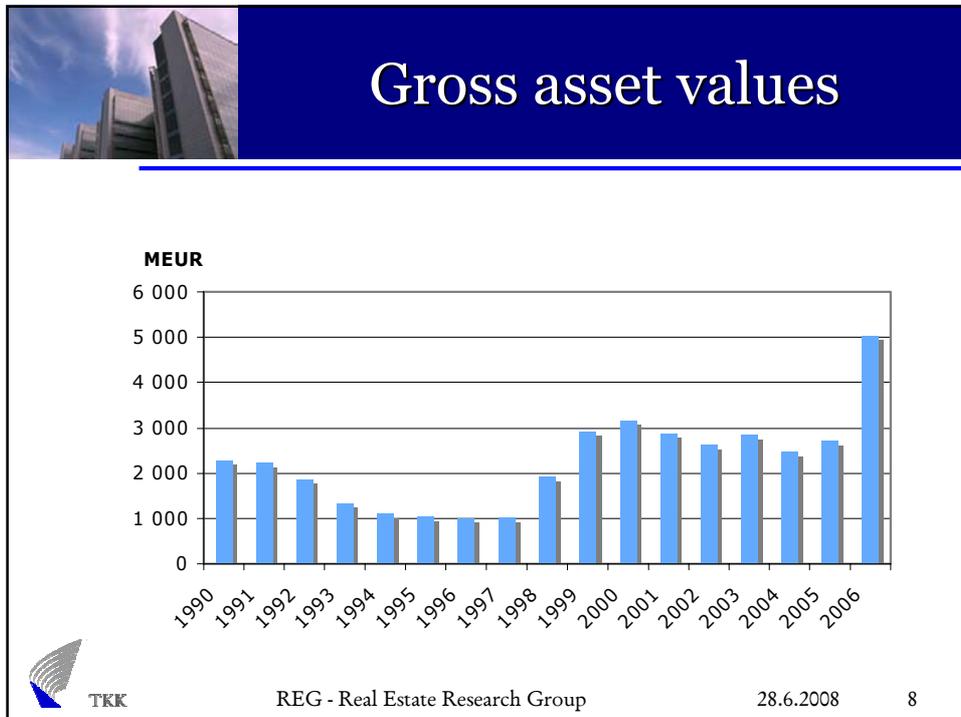
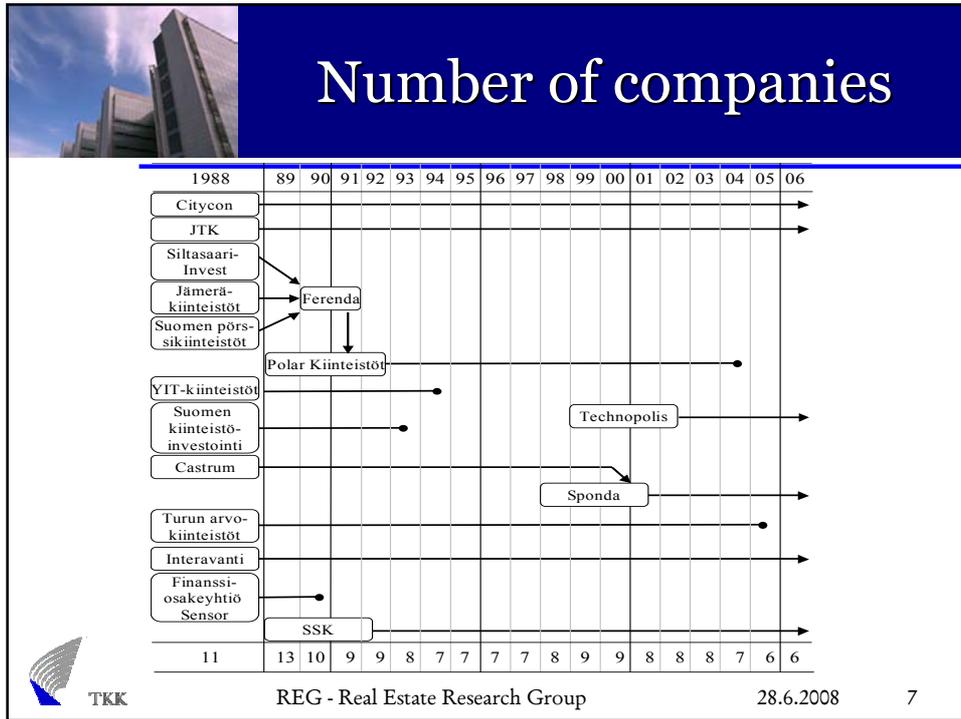


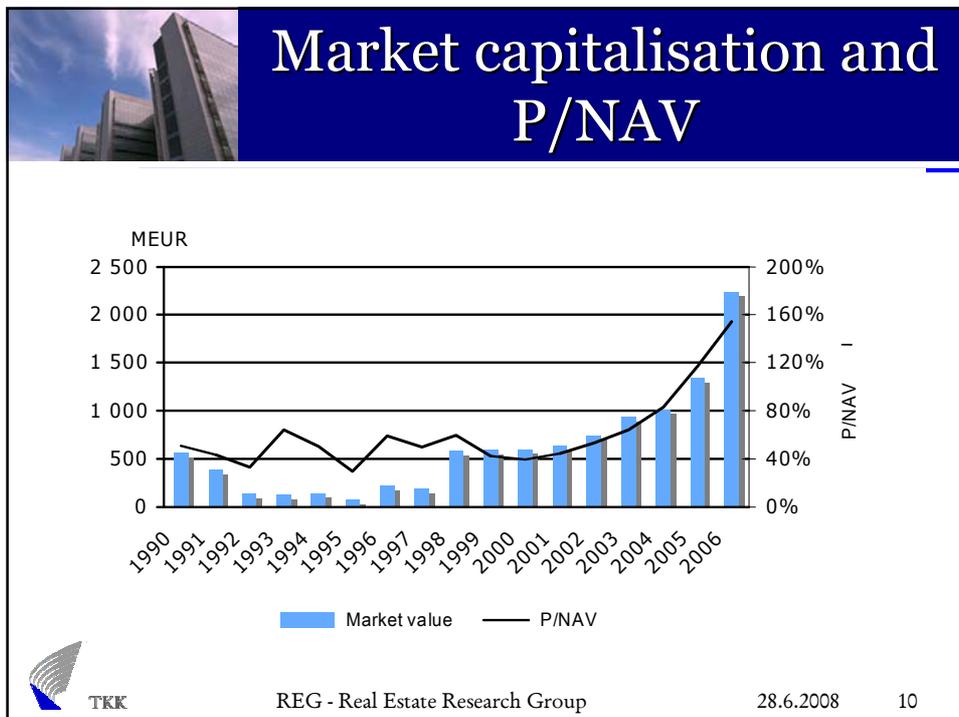
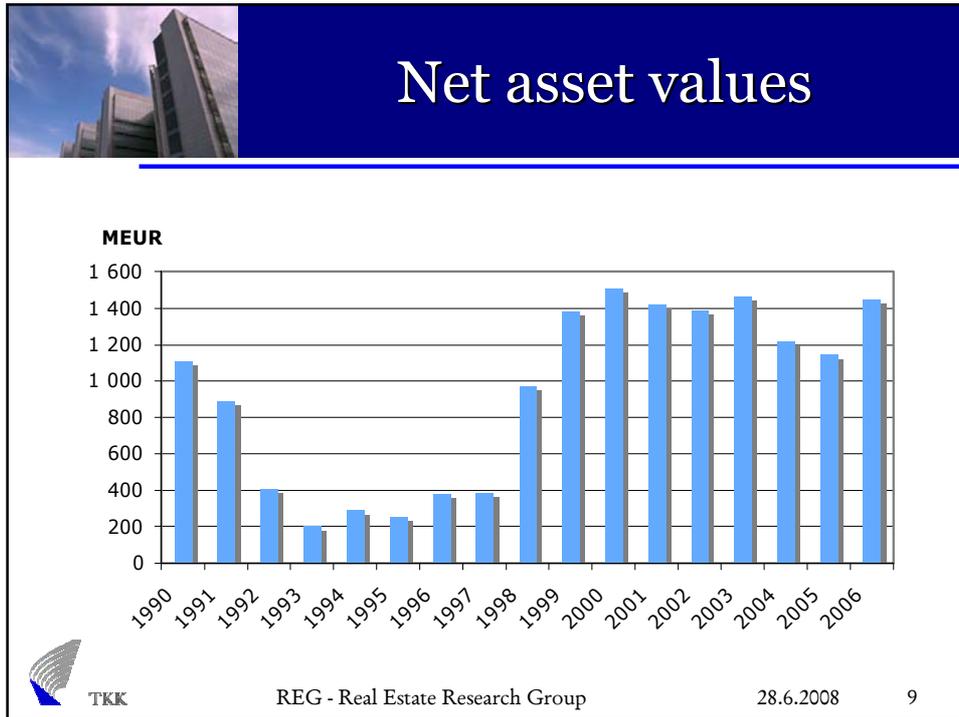
## Development of PREICs 1988-2006

- number and scope of public real estate investment companies (PREICs)
- development of gross asset value, net asset value and market capitalisation
- public real estate investment companies today



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## PREICs today

Company	Market Cap (MEUR)	Properties (MEUR)	Share turnover	Major owners
Sponda	952	2455,1	53 %	Finnish state (34,3%)
Citycon	844,3	1447,9 (FIN: 1010)	31%	Gazit Globe Ltd. (38,8 %)
Technopolis	306, 7	392,2	58 %	Foreign investors (51,2%)
Interavanti	57,7	16,2	0,3 %	Management (94 %)
JTK	66,5	129,7	3,2 %	Oy Julius Tallberg Ab (66,64 %)
SSK	6,3	2,8	4, 0 %	OWH-Yhtiöt Oy (49,40 %)


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## Conclusions

- The forms of real estate investment in Finnish real estate markets are still fairly limited.
- The development of the PREIC sector has been closely connected to the development of the general economy and property markets


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## Conclusions

- Portfolios held by PREICs have grown substantially during the past five years, but relative significance of the PREIC holdings in the Finnish commercial real estate markets is still fairly small, less than 20 % of the investible market (in U.S. 27 %).
  - Expansion possibilities
  - A possible explanation for the small size of the public equity sector could be the lack of a public, tax-transparent investment vehicle (REIT), as the double-taxation imposed to PREICs decreases the attractiveness of the investment for investors, who have the possibility and means to invest in other forms of property.



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