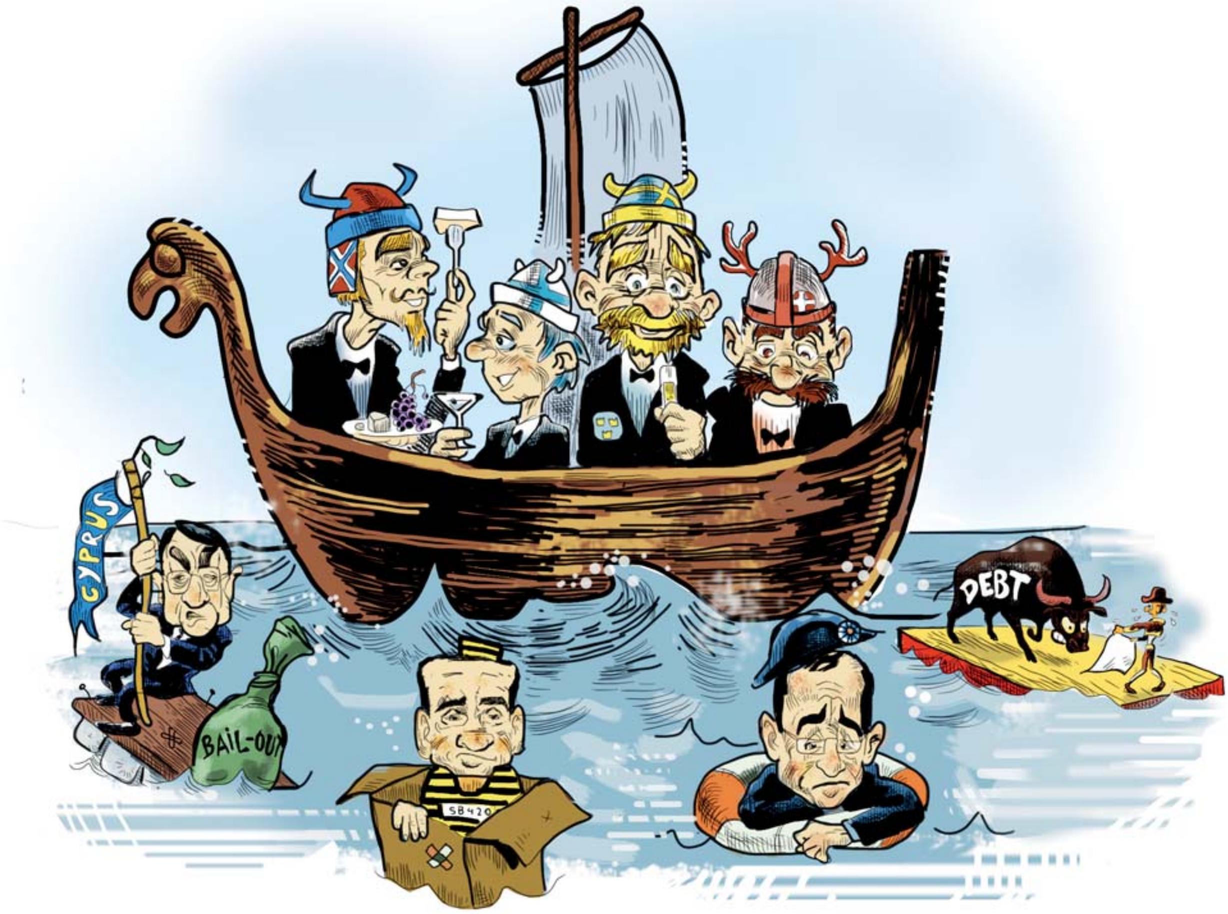
NORDIC INSIGHT

MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

APRIL 2013



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April 9, 2013

Dear Reader,

In this *Nordic Insight*, we firstly have a look at the relative attractiveness of Nordic retail. The European retail market continues to face multiple cyclical and structural headwinds that together are creating difficult trading conditions into the medium term. Prospects for the retail sector are weak relative to historic trends in all markets. However, retail fundamentals are relatively stronger in Norway, Sweden, Finland and Germany, reflecting the greater stability of these economies in the aftermath of the financial crisis. While these markets have not been immune to the effects of the prolonged economic downturn affecting the wider European region, they have delivered – and are forecast to continue delivering – stronger economic output into the medium term. This is reflected in retail sales volumes that, in contrast to weaker economies, are currently above end-2007 levels.

Next, we look at the liquidity in real estate in Europe and in particular at how the Nordics compare. Looking forward, Europe's share of global capital is expected to reduce in the near term. However, such trends are not evenly dispersed across European markets. Since the downturn, perceived safe-haven markets have been subject to a strong and increasing weight of capital, while the southern peripheral markets are broadly characterized by inertia. Together, Europe's core economies (Germany, France and the United Kingdom) and the Nordics accounted for a little over 85% of capital invested in 2012, yet represent 57% of European GDP.

Thirdly, we provide a high-level overview of the impact on alternative investment fund managers of the European Markets Infrastructure Regulation (EMIR). Technical standards, supplementing the provisions of EMIR, are being implemented until at least 2014 and a brief timeline of the implementation of the requirements under EMIR is provided.

As always, we provide an update on the economies and real estate markets in the Nordic countries.

We hope that you will find *Nordic Insight* useful and enjoyable.

Best regards

David C. Neil
CEO
Genesta Property Nordic

NORDIC RETAIL

HOW STRONG IS THE OPPORTUNITY?

Nordic retail is identified as the number one preferred destination for institutional real estate capital in INREV's survey of investor intentions for 2013[1]. This represents an increase in its ranking over 2012, when Nordic retail was investors' second preference. However, the proportion of investors selecting this sector/location declined from 48.5% to 34% ***(see Chart 1)***. Recent articles in *Nordic Insight* have demonstrated that real estate investors' perceptions of the Nordic office markets as safe havens are rational due to the region's greater economic stability and relative prospects[2]. However, the supply and demand dynamics underlying the retail sector are more complex.

Historically, the retail sector has been perceived as a safe haven during economic downturns, as income streams are less volatile than for other sectors. The improbability of experiencing negative cashflows generated lower asset-specific risk. However, a number of factors have led to an erosion of the retail sector's defensive attributes. First, the severity of the financial downturn and its impact on consumer spending. Second, the vulnerability of retailers' business models to a slowdown in demand. Third, the rapid acceleration in the supply of shopping center stock post-2000. This has led to rising income volatility, the severity of which is unevenly distributed across European markets at both macro and micro levels.

This article considers each Nordic retail market relative to its European peers through a comparative analysis of risk characteristics. First, the drivers of consumer demand are considered. Second, the strength of retailer demand is assessed. Third, supply is examined in the context of existing stock and future supply. This analysis enables each market to be evaluated across explicit risk dimensions, providing for an evaluation of relative prospects at the country level.

Consumer Demand

Since the onset of the downturn, the combination of persistently weak economic growth and the need for governments, corporates and consumers to deleverage has resulted in a challenging retail environment. Consumer confidence has been shattered by continued economic uncertainty, low growth and rising unemployment ***(see Chart 2)***. While confidence is below the long-term trend across nearly all markets, this is most acute in countries that are subject to significant fiscal austerity measures, including Spain, Italy,

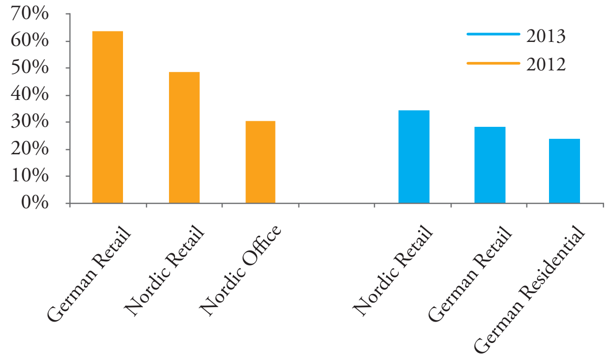
[1] INREV (2013) Investor Intentions Survey, January 2013

[2] *Nordic Insight* (2012), Genesta Property Nordic, November 2012

the United Kingdom and France. Across many markets, real incomes have declined as a result of job cuts, wage declines or freezes, reduction or removal of a wide range of social benefits supplementing income, as well as increases in personal taxation and VAT.

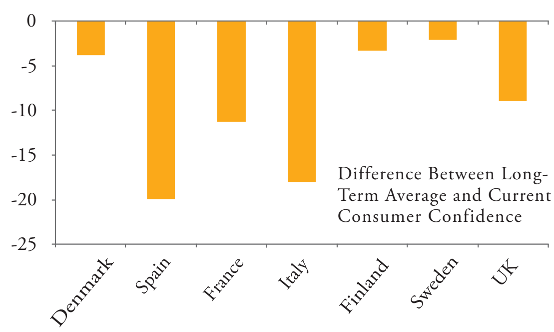
The impact on retail trade is exacerbated in markets where consumers are under pressure to de-leverage personal finances and where decline or stagnation in the residential market has resulted in a negative wealth effect, for example the United Kingdom, Spain and Ireland. Looking forward, the expected escalation of austerity in Italy, Spain and Portugal over 2013 will put further pressure on constrained household budgets. Given high levels of unemployment and real wage growth decline, the risk of a downward economic spiral is heightening. Until recently, the French consumer proved relatively resilient in the aftermath of the financial downturn due to the low exposure of households to short- and long-term debt and the absence of a debt-fueled housing bubble. However, the exposure of the French banking system to the sovereign debt crisis, low investment amidst a credit squeeze, and low demand from key southern peripheral trading partners for exports have escalated the need for fiscal consolidation. This has resulted in multiple headwinds for private consumption, including rising unemployment, wage austerity and tax increases. The near-term outlook for private consumption is weak *(see Chart 3)*. However, while absolute growth rates are low, consumption is expected to exceed the long-run 15-year average in Germany and Denmark.

Chart 1: Top Three Destination and Sector Investment Strategies (% Investors)



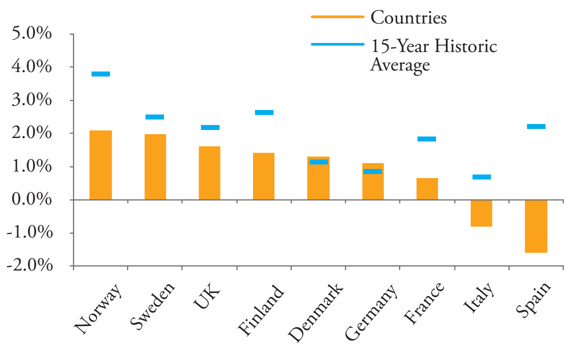
Source: INREV, Investor Intentions Survey, January 2013

Chart 2: Current Consumer Confidence Relative to Long-Term Trend



Source: Eurostat, 2013; Genesta, 2013

Chart 3: Private Consumption Growth Forecasts, 2013-2014f (Annualized)



Source: Genesta, 2013; Eurostat, 2013; Cushman and Wakefield, 2012; Oxford Economics, 2012

Comparatively, austerity measures in northern European economies have been mild and have centered on achieving a balanced budget through growth[3]. Norway, Sweden, Finland and Germany benefit from a combination of low fiscal and household indebtedness. This removes the need for drastic public sector spending cuts. Indeed, current account surpluses in Norway, Sweden, Germany and even Denmark have enabled governments to use stimulus policy, principally manifest in infrastructure programs, to assist in supporting employment in the face of weaker demand for exports. Moreover, household finances are healthy. In Sweden, household savings ratios are at a 16-year high and real incomes have increased by 6% since end-2010 due to modest above-inflation wage growth, while disposable incomes have been further bolstered by interest rate cuts. Similarly, real wage growth has been strong in Norway, given a tight labor market, and the savings ratio has increased sharply above trend. In stark contrast to other markets, private consumption is expected to provide an important engine of economic growth.

"NORWAY, SWEDEN, FINLAND AND GERMANY BENEFIT FROM A COMBINATION OF LOW FISCAL AND HOUSEHOLD INDEBTEDNESS. THIS REMOVES THE NEED FOR DRASTIC PUBLIC SECTOR SPENDING CUTS."

Of course, these economies are not entirely immune to the prolonged economic downturn. Economic growth has been curtailed by declining demand from European trading partners and low business confidence has impeded investment. This has put upward pressure on unemployment. However, given their greater economic stability, these markets are expected to immediately benefit from a recovery in the wider European economy for a number of reasons. First, austerity measures are already gradually being withdrawn. Even Denmark, which has previously been subject to significant fiscal readjustment, will benefit from the end of austerity. In contrast, austerity programs will continue in the United Kingdom and accelerate in Spain, Italy and France. Second, being export-led they will benefit from improving credit availability, enabling investment, the recovery of the United States and China's return to trend growth.

Excepting Denmark, consumers in the Nordics and Germany are characterized by low household debt and strong savings ratios ***(see Chart 4)***. As a result, rising disposable incomes are expected to translate into earlier and stronger retail sales growth. In Italy, Spain and even France, retail sales growth is forecast to be negative in the near term. While a gradual shift into positive territory is anticipated by 2015–2016, this will be slowed by the need for households to replenish savings.

This earlier recovery in retail sales growth is also off a higher base. The greater solvency and export-driven structure of the German and Nordic economies have enabled their economic outputs to persistently outperform the European average since the onset of

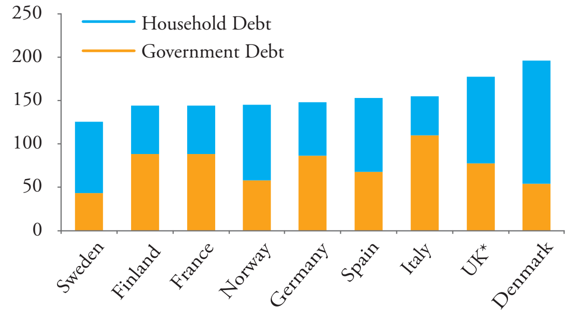
[3] Leven, Z and Santi, F (2013) EU Austerity and Reform: A Country by Country Table, European Institute, April 2013

the financial crisis. As a result, expectations of stronger and earlier growth rates are also made in respect of a higher base. The cumulative change in private consumption from end-2007 to end-2012 illustrates the differential performance of markets ***(see Chart 5)***. Importantly, Germany, Norway, Sweden and Finland do not need to recover growth.

As well as representing the strongest retail sales growth prospects, Germany and the Nordics are also the most affluent consumers. Across the selected markets, they are characterized by the highest disposable incomes *per capita*. Importantly, from a retail sector perspective, they also have the lowest level of income polarization ***(see Chart 6)***. The gini co-efficient measures the ratio of income distribution between the highest and lowest 20% of households. The lower the ratio, the more even the distribution of income. Thus, Germany and the Nordic markets are not simply more affluent; this affluence is also more widely distributed across the population. In other words, a high proportion of the population benefits from the capacity for strong discretionary spending. In contrast, income distribution is more polarized in other markets, such as Italy, Spain and the United Kingdom.

While near-term retail sales growth will be weak across Europe, the prospects for Germany and the Nordic markets are considerably stronger for a number of reasons. First, while below trend, growth is positive and stronger relative to other selected European countries. Second, they benefit from an earlier recovery in the rate of growth. Third, in Norway, Sweden

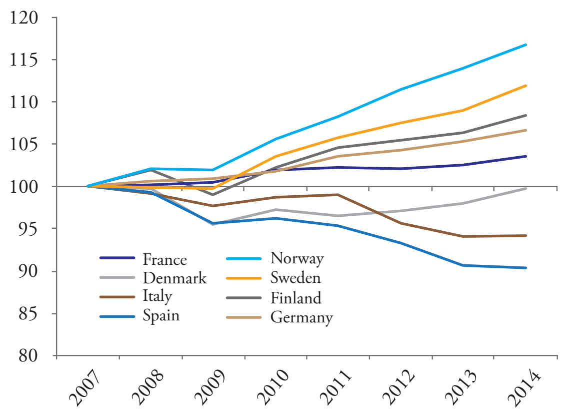
Chart 4: Government and Household Debt (% GDP)



Note: As at end-2011: Includes all loans and fixed income securities

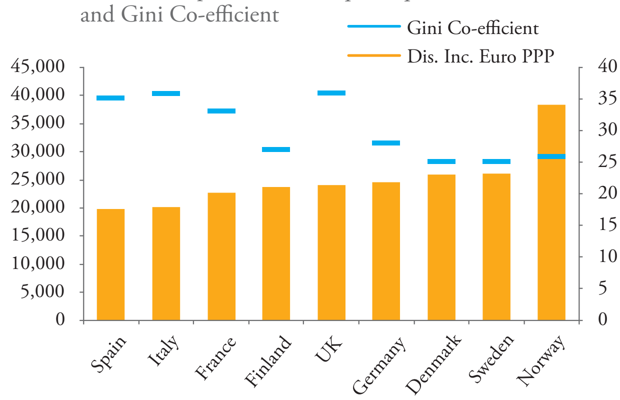
Source: Eurostat, 2012

Chart 5: Cumulative Index of Private Consumption Growth, 2007-2014f



Source: Genesta, 2013; Eurostat, 2013

Chart 6: Disposable Income *per Capita* EUR PPP and Gini Co-efficient



Source: Eurostat, 2012

and Finland, retail sales growth will increase retail sales volumes beyond their end-2007 level. While other markets such as Spain and the United Kingdom are expected to experience a bounce in retail sales growth, this partially represents a recovery of retail sales volumes. Fourth, the greater solvency and affluence of consumers in the Nordics and Germany, together with their wider distribution, provides for a more certain and widespread recovery of consumer demand.

> "THE CURRENT MALAISE IN RETAIL MARKETS PROVIDES A STRONG OPPORTUNITY FOR EXPANDING CROSS-BORDER RETAILERS TO ACQUIRE PRIME STORES IN THE MOST SOUGHT-AFTER LOCATIONS ON ATTRACTIVE TERMS."

Retailer Demand

Retailers' business models have been under increasing pressure over the past six years, given the persistence and continued deterioration of consumer demand. At the same time, their cost bases have been increasing, given inflationary pressures on the cost of goods from Asian markets and the need to invest in multi-channel platforms. This two-pronged attack has squeezed profit margins and led to many retailers focusing on re-aligning store portfolios as a means of improving profitability. This rationalization has resulted in the closure of non-performing stores. This is most prevalent in markets that suffer from the weakest retail sales performance and oversupply.

While store expansion plans remain cautionary, rationalization of store portfolios also includes strengthening store networks. The current malaise in retail markets provides a strong opportunity for expanding cross-border retailers to acquire prime stores in the most sought-after locations on attractive terms. Indeed, demand for the best space in prime markets/dominant centers from expansionary retailers focused on building market share will continue. Larger dominant schemes and prime High Streets are outperforming in terms of rental sustainability, vacancy and churn rates[4].

Store portfolio strategies mirror those of investors, with retailers focusing on two distinct sets of perceived safe-haven markets. First, these include the largest prime retail markets at a city level (London, Paris, Milan and Madrid), which are perceived as safe havens due to their scale. In addition, investors are focusing on expansion opportunities in stable economies that offer retail sales growth, but that are characterized by a relatively low representation of cross-border retailers ***(see Chart 7)***[5]. These include key cities in Germany, Sweden, Norway and Finland. Given the scale and stability of the German market, it is perhaps unsurprising that it is the principal focus for cross-border retailers seeking to expand. Relative to the size of the German economy, cross-border retailers are currently under-represented across its principal cities.

Cross-border retailer representation across the Nordic markets is below the

[4] CBRE (2012), How active are retailers in EMEA?

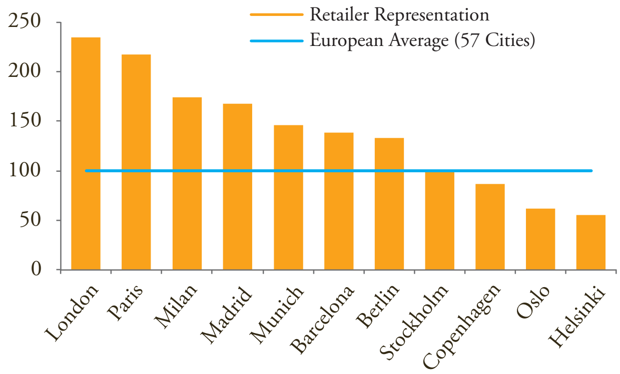
[5] JLL (2013) destination Europe

European average. Given the relative strength of the Nordic retail economies, this represents a strong opportunity for retailers that are seeking to strengthen their store networks.

Supply

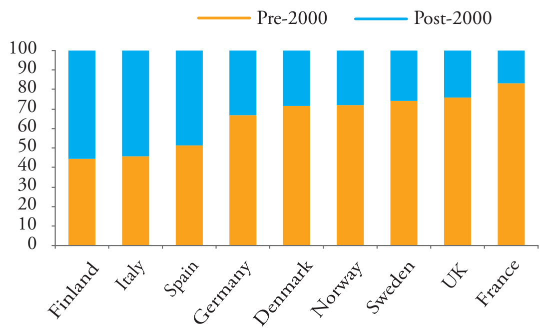
Pre-2000 retail planning constraints on out-of-town shopping center development in much of northern Europe underpinned the defensive qualities of retail. Constrained supply resulted in pent-up retailer demand. While development in Iberia was generally more liberal, strong economic growth resulted in a rapid catch-up that absorbed oversupply relatively quickly. Post-2000, the supply of shopping center stock accelerated rapidly across Europe *(see Chart 8)*. Developers focused on urban regeneration and brownfield land schemes in the most mature shopping center markets in northern Europe, while the pace of development in maturing markets ran ahead of growth in demand. The safety net of undersupply was removed during the boom that preceded the downturn. As a result, the prolonged decline in consumer demand experienced since the onset of the financial crisis has had a more significant impact on the sector than in previous downturns. This is most marked in the more consumerist economies of Spain and the United Kingdom. In Spain, the collapse of consumer demand in the context of oversupply has resulted in rising vacancy rates that in extreme instances have caused schemes to close. Weak demand in the United Kingdom has exacerbated fragile retailer business models amid wider structural change in shopping patterns. This has resulted in polarization of prime and secondary retail locations, with the latter subject to increasing vacancy rates. In the Nordic markets and Germany, occupancy levels

Chart 7: Cross-Border Retail Representation Index



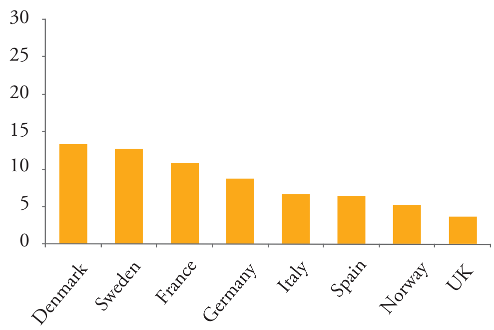
Source: Selected from JLL, Fall 2012

Chart 8: Proportion of Stock Completed Pre- and Post-2000 (%)



Source: ICSC, 2010; Cushman and Wakefield, 2011

Chart 9: Expected Completions to 2016 as % of Existing Stock



Source: Cushman and Wakefield, 2012; DTZ, 2012; Genesta, 2012

> "RE-ALIGNING THE RETAIL OFFER MORE APPROPRIATELY TO THE CHANGING CONSUMER OPPORTUNITY WILL BUILD MARKET SHARE, INCREASE INCOME AND LOWER THE RISK PROFILE, THEREBY CREATING VALUE IN AN OTHERWISE STABLE RETAIL MARKET."

are more stable, with these markets benefiting from stronger domestic and cross-border retailer demand.

Looking forward, the supply pipeline remains low, with annual completions projected to remain 20% below their long-term average over the medium term[6]. Given even weaker data for shopping center starts, completion rates will continue to deteriorate beyond the medium term for a number of reasons. First, the availability of development financing is low and the requirements for pre-lets of new schemes have increased to approximately 60%. Excepting new-destination retail schemes with a monopolistic position in affluent catchment areas, retailers are generally unwilling to sign up to new schemes that cannot provide a track record. Second, the severity of the economic downturn has had a significant impact on consumption. Retail sales growth is expected to weaken further in the near term, as austerity measures put household finances under renewed pressure. Third, retailers remain under pressure from a rising cost base and are struggling to grow turnover. Rationalization of real estate portfolios is providing the greatest opportunity to improve margins. In addition, retailers' expansion strategies remain cautious. While they are taking advantage of the greater availability of space in the most sought-after locations, store acquisition decision making remains very discerning. This will assist in supporting prime rents, although performance between prime and secondary retail will continue to diverge in the short term. This suggests a bounce in rental growth from end-2014 in most markets as fiscal measures are gradually withdrawn and consumers unleash pent-up demand. The exceptions are the southern peripheral markets, where retail sales growth recovery is expected to lag the wider European trend.

Much of the supply pipeline underway represents redevelopment and extensions to existing schemes ***(see Chart 9)***. Expected completions over the next five years are lower than 10% of existing stock in most markets and, given the emphasis on existing schemes, are likely to be lower in terms of net additions. Finland and Sweden are notable exceptions, with stronger retail dynamics resulting in greater development activity.

In Finland, new schemes account for the majority of development and, at 28% of existing stock, a much stronger supply pipeline. Despite stronger underlying fundamentals, the scale of new supply is a risk to further rental growth beyond prime, dominant schemes in Helsinki. However, the Finnish shopping center market is relatively immature compared to Sweden, with the majority of stock opening post-2000 and stock *per capita* considerably lower. While expected completions indicate that supply is running ahead of demand, it is likely that many schemes

[6] CBRE (2013) European Shopping Centre View; Cushman and Wakefield (2012), Shopping centre development report, Europe

will be withdrawn or shelved, given the low availability of finance and/or the high pre-leasing ratio required.

In contrast, while Sweden's supply pipeline is above the European average, this is heavily skewed by one large scheme, the Mall of Sweden. Given stronger fundamentals from 2015, the supply pipeline appears measured. Indeed, the data masks the emphasis of activity on upgrading and extending existing space. As such, the pipeline does not represent net additional space. Nevertheless, with a wave of new, refurbished and extended schemes opening in 2015, rental growth will remain modest despite a recovery in the momentum of retail sales growth.

Nordic Retail is a *Relatively* Strong Opportunity

The European retail market continues to face multiple cyclical and structural headwinds, which together are creating difficult trading conditions into the medium-term outlook. Prospects for the retail sector are weak relative to historic trends in all markets. However, retail fundamentals are relatively stronger in Norway, Sweden, Germany and Finland. This reflects the greater stability of these economies in the aftermath of the financial crisis.

While these markets have not been immune to the effects of the prolonged economic downturn affecting the wider European region, they are forecast to continue delivering stronger economic output into the medium term. This is reflected in retail sales volumes, which in contrast to weaker economies are currently above end-2007 levels. The greater affluence of consumers in these markets and the low representation of international retailers means that these markets represent target destinations for expanding cross-border operators. Continued consumer appetite and growing retailer demand assists in sustaining income levels.

Of course, these stronger fundamentals have also attracted investors to the region. It is therefore unsurprising that the Nordic region is subject to stronger supply. Excepting Finland, expected completion rates are low relative to historic trends. However, this points to the importance of understanding retail markets at the micro level. The strongest opportunities will be in mature retail locations, with affluent catchment areas and/or that are subject to population growth, that further benefit from low exposure to the impact of new supply. In particular, retail locations that afford the opportunity to implement repositioning strategies to capitalize on former weak ownership and asset management, and/or population changes that have shifted the underlying strength of the catchment area. In areas, for example, where the retail offer in terms of tenant mix and retail environment is weak relative to the consumer opportunity. Re-aligning the retail offer more appropriately to the changing consumer opportunity will build market share, increase income and lower the risk profile, thereby creating value in an otherwise stable retail market. ■

EUROPEAN REAL ESTATE LIQUIDITY, HOW DO THE NORDICS COMPARE?

Global real estate investment volumes increased over 2012, buoyed by higher levels of Asian institutional capital. Despite challenging political and economic conditions in Europe, annual investment volumes were broadly sustained over 2012. In part, this reflects the deployment of dry powder from committed capital in non-listed funds, which decreased over the same period. It also reflects an increase in the proportion of investors making new commitments to real estate funds, which increased from 34% to 49% across all investors from 2011 to 2012[1]. Indeed, investment activity continues to be dominated by non-listed funds. In addition, institutional investors increased their activity over 2012, with sovereign wealth funds significantly increasing net investment. While sovereign wealth funds' share of total European investment is 5%, this represents a sharp increase from USD 1.5 billion in 2011 to USD 5.6 billion in 2012[2].

The structural changes underpinning a shift in Asian institutional investor strategies toward alternative asset classes is evident in the high proportion of investors from the region making real estate commitments (86%) relative to investors from Europe (45%) and the United States (48%) ***(see Chart 1)***. Within Europe, domestic and intra-regional investors account for the highest proportion of investment by volume. However, they represent an even higher proportion of disinvestment and remained net sellers over 2012. In contrast, inter-regional capital represents the largest share of real estate net investment for Europe.

[1] Preqin (2013) Investor Outlook: Real Estate H1 2013

[2] DTZ (2013) European Investment Market Update, Q4 2012

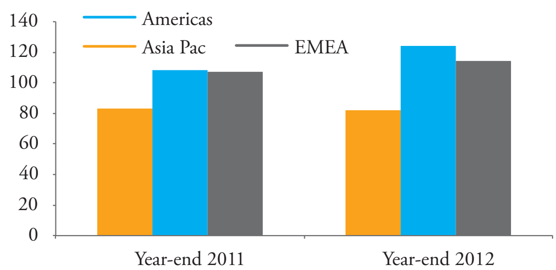
Investment sentiment indicators suggest that these trends will strengthen over 2013. Real estate investment volumes are expected to increase across all regions. Estimates suggest that available real estate capital will increase by 7.4% over 2013 to USD 320 billion ***(see Chart 2)***[3]. While this remains below the post-crisis peak of USD 328 billion in 2010, it represents a significant increase in equity capital commitments, given the declining contribution of debt and dry powder to total available capital. Estimates of available equity targeting European real estate at the beginning of 2013 have increased by 14.8% to USD 62 billion compared to the previous year. Over the same period, the amount of dry powder has declined by approximately 10% globally and average loan-to-values in Europe have fallen to 46%, significantly lower than for other regions.

Looking forward, Europe's share of global capital is expected to reduce in the near term for a number of reasons. First, while equity commitments will continue to grow, they are unlikely to outpace the decline in debt. Second, investor intentions suggest that only 39% of Europe-based investors are likely to make a new commitment to real estate over 2013, in contrast to some 83% of Asian- and 48% of US-based investors. Of course, the importance of inter-regional investors as a source of European real estate investment capital has been increasing over recent years. This trend is expected to continue proportionately as Europe-based investors decrease allocations to the region. However, investment in home regions will continue to dominate investor strategies and, while this is evident

Chart 1: Investor Commitments (2012) and Intention to Commit (2013) to Non-Listed Funds by Region

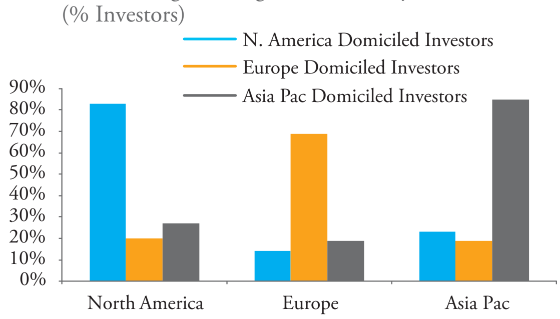
Source: Preqin (2013)

Chart 2: Available Capital by Region, end-2011 versus end-2012 (USD billion)



Source: DTZ (2013)

Chart 3: Regions Targeted in 2013 by Investor Domicile (% Investors)



Source: Preqin (2013)

across all regions, it is stronger for Asia Pacific and North America *(see Chart 3)*. In part, this also reflects available opportunities and is reflected in the target geography of non-listed funds currently raising capital. Over H2 2012, new fund raisings targeting the European region declined by 22%[4].

"TOGETHER, EUROPE'S CORE ECONOMIES (GERMANY, FRANCE AND THE UNITED KINGDOM) AND THE NORDICS ACCOUNTED FOR A LITTLE OVER 85% OF CAPITAL INVESTED IN 2012, YET REPRESENT 57% OF EUROPEAN GDP."

Of course, such trends are not evenly dispersed across European markets. Since the downturn, perceived safe-haven markets have been subject to a strong and increasing weight of capital, while the southern peripheral markets are broadly characterized by inertia. Together, Europe's core economies (Germany, France and the United Kingdom) and the Nordics accounted for a little over 85% of capital invested in 2012, yet represent 57% of European GDP. In contrast, the peripheral economies including Italy, Spain, Greece, Portugal and Ireland account for less than 7% of invested capital, yet represent 23% of European GDP *(see Chart 4)*.

Investors will narrow their focus further in 2013 as the risks associated with even certain core markets such as France increase in the short term. Investor intention surveys indicate a further increase to allocations to the Nordic region, with the retail sector particularly favored[5]. This raises the question of whether these markets are at risk of deflating sharply as markets eventually regain confidence and investors are able to digest higher risk to achieve stronger returns. This is already a recognizable trend in fixed income markets. However, analysis of the Nordic real estate markets suggests that their exposure to any such rebalancing of target capital is low for a number of reasons.

First, although the Nordic region's proportionate share of European investment volumes is slightly above trend, absolute investment volumes remain 47% below their 2006 peak *(see Chart 5)*[6]. Thus, while the region is less exposed to the decline in the availability of total real estate capital, it has not been immune to the impact of the declining contribution of debt and more subdued equity following the crisis. Moreover, this trend is consistent for each country within the region. Given Sweden's strong economic fundamentals and the strengthening position of Stockholm as the regional capital for the Nordics, it is the preferred destination for capital. However, while there is some volatility in the proportion of capital targeting individual countries across the region, there is no discernible shift in the distribution of real estate investment capital across the region *(see Chart 6)*. The decrease in the share of investment volumes in Denmark and Finland is explained by their relatively weaker real estate prospects.

Second, the stronger allocations to retail in comparison to the sector's share

[3] DTZ (2013) The Great Wall of Money, March 2013

[4] Preqin (2013) Real Estate Spotlight, March 2013

[5] INREV (2013) Investor Intentions Survey; CBRE (2013) Investment Outlook

[6] CBRE (2013) Nordic Investment, Marketview Q4 2012

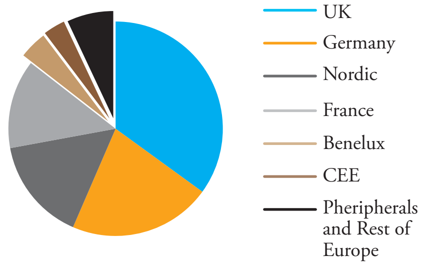
[7] *Property EU* (2012) Nordic Investment Market Briefing, 25 April 2012

of total investments at the European aggregate level are consistent with historical trends. As well as mirroring the strong consumer culture and fundamentals of the region, this also reflects differences in ownership structures, with the region benefiting from higher levels of shopping center liquidity.

Third, historically the proportion of domestic investment in the Nordic markets has been higher than the European average *(see Chart 7)*. Globally, investor appetite for cross-border investing collapsed in 2009. While there has been some recovery in cross-border investing relative to pre-crisis volumes, it remains low as a proportion of all investment. Moreover, analysis of the source of cross-border investment reveals that intra-Nordic investors account for a significant share of non-domestic investment[7]. This reflects the bias of cross-border investors toward familiar markets and the stronger prospects of the region. It is worth noting that while increasing inter-regional capital, notably from Asia, has buoyed European investment volumes, it has had little impact on capital flows into the Nordic region. This lowers the Nordic markets' exposure to shifts in global investment sentiment.

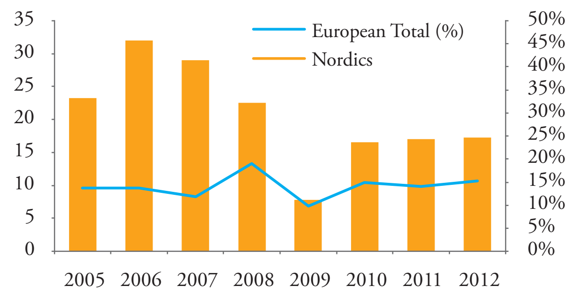
Interestingly, prime office yields have compressed to levels approaching their pre-crisis peak, yet rental growth prospects are modest and the weight of capital targeting the region remains low relative to the historical trend. However, available capital has been very narrowly focused on prime, income-secure assets. This suggests that the volume of capital targeting core investments in the region has at least

Chart 4: Destination of Capital by Geography (2012)



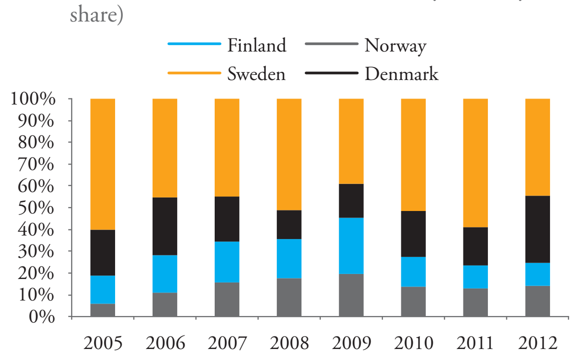
Source: DTZ, (2013)

Chart 5: Absolute (LHS EUR billion) and Relative (RHS % European capital) Nordic Investment Volumes, 2005–2012



Source: CBRE, (2012); DTZ (2013)

Chart 6: Nordic Investment Volumes by Country (% share)



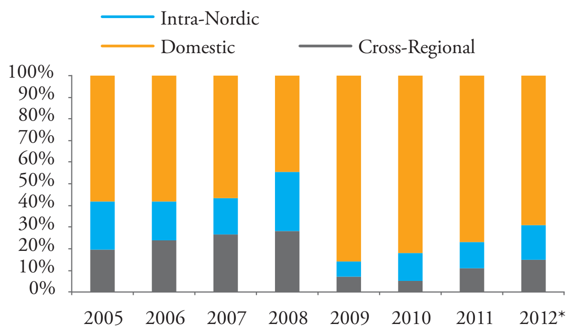
Source: CBRE (2012)

reverted to trend, intensifying competition for limited product. In contrast, investor appetite for non-prime assets has been weak, with the spread between prime and good-quality non-prime remaining high. Even good-quality, income-secure assets in the strongest sub-markets show a 200-basis-point spread with similar assets in the prime CBD market[8].

A number of investor sentiment surveys including INREV, Preqin and CBRE indicate that investors have increased their appetite for value-added investing sharply at the same time as they have increased their allocations to the Nordic markets ***(see Chart 8)***. This is rational, given the strength of fundamentals in the region, limited supply in the context of increasing occupier demand in the office market and the strength of household finances supporting the retail market. It also suggests an acknowledgement that the pricing of prime suggests an increasing risk of value erosion if yields rise as expected. As a result, the appetite for value-added investments has increased sharply. ■

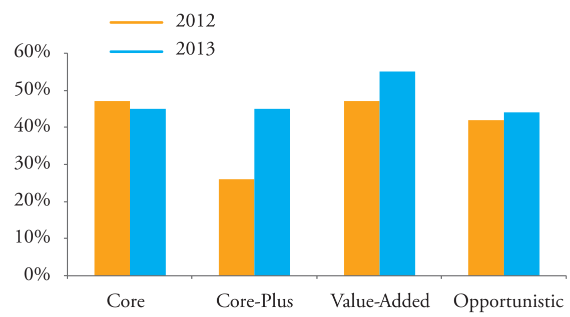
[8] *Nordic Insight* (2013) The Duality of Mispricing, Genesta, January 2013

Chart 7: Source of Capital Invested, 2005–2012



Source: CBRE (2012); *Estimate

Chart 8: Investors' Preferred Target Strategies, 2012 versus 2013



Source: Preqin (2013); As indicated by investor survey at end-2011 and end-2012

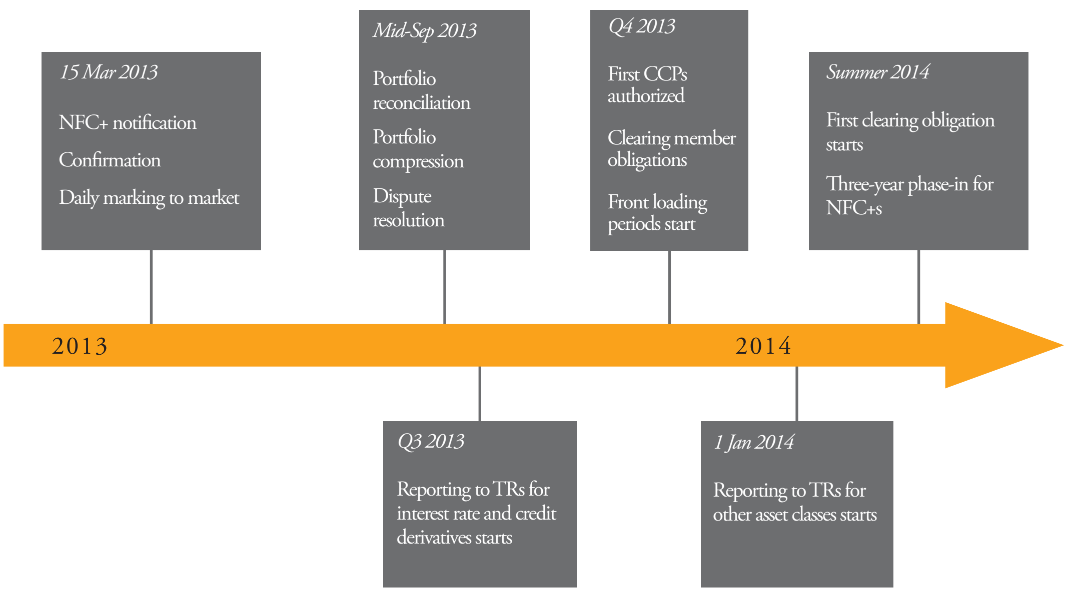
EUROPEAN MARKETS INFRASTRUCTURE REGULATION COMES INTO FORCE

The Regulatory Technical Standards (RTS) implementing the European Markets Infrastructure Regulation (EMIR) came into effect on 15 March 2013. EMIR is an EU regulation governing the trading of OTC derivatives. The overriding objective of EMIR is to reduce systemic risk, increase market transparency and improve risk management. The central core of the legislation is the requirement for standardized OTC derivatives traded between financial and certain non-financial counterparties to be cleared through an authorized central counterparty (CCP). In addition, EMIR introduces reporting requirements on all trades and risk mitigation requirements for uncleared OTC derivatives trades. Many of the requirements will not come into force for some time ***(see Chart 1)***. However, the obligation to ensure the timely confirmation of uncleared OTC derivatives contracts and daily marking to market is already required.

Relevance to Non-Listed Real Estate Funds

Under the regulation, an Alternative Investment Fund (AIF) managed by an Alternative Investment Fund Manager (AIFM), as defined by the Alternative Investment Fund Managers Directive (AIFMD), is

Chart 1: EMIR: Expected Implementation Timetable of Requirements



Source: Clifford Chance (2013) EMIR: Illustrative Implementation Timetable-Update, February 2013 categorized as a financial counterparty. AIFs are therefore subject to the full range of obligations imposed by EMIR. Importantly, the emphasis of the regulation is on traders rather than on the purpose of a trade. Thus, for financial counterparties regulatory requirements apply to derivatives used for the purpose of hedging commercial risk. This includes the common use of derivatives within real estate investment as a means of limiting exposure to interest rate and currency fluctuations.

Regulatory Requirements

The obligations of EMIR for AIFs fall into three broad categories, namely; clearing, risk mitigation and reporting requirements.

Clearing Obligation

For AIFs, this will apply to OTC contracts that have been declared subject to the clearing requirement. While these have not yet been fully defined, it is widely expected to apply to interest rate and currency derivatives and swaps from the outset. The clearing obligation is unlikely to come into force until 2014 as it requires central counterparties to be authorized to clear trades, the designation of applicable trades and detailing of margin and collateral requirements.

The requirement to use a CCP increases the cost of hedging substantially. In addition to paying for the services of the CCP, financial counterparties will be required to post a minimum margin of the notional principal. Where the fair value of the trade turns negative, a counterparty is required to post a variation margin. The clearing counterparty is required to have permanent, available and separate initial and variation margins. Such margins must be liquid capital. Previously, such contracts have been collateralized with the underlying real estate. By treating real estate managers as traders, the approach works against the use of derivatives as a means of optimizing cash management.

Risk Mitigation

For OTC derivatives contracts not subject (or not yet subject) to mandatory clearing by a CCP, risk mitigation is required to manage operational and credit risk. The exact risk management requirements are set out in the RTS and include: daily marking to market of uncleared derivatives positions; assessing capital requirements; segregating required collateral; portfolio reconciliation; portfolio compression; timely confirmation; and dispute resolution. Again, highly liquid collateral is required in contrast to the underlying real estate. While these requirements will be phased in over 2013, timely confirmation and daily marking to market obligations have been required since 15 March.

Reporting Obligations

Since 16 August 2012, counterparties have been required to keep records of their derivatives contracts for at least five years from the end of the contract. EMIR imposes reporting obligations for AIFs for all derivatives. Reports are made to a trade repository and include detailed information as to the parties to the trade and the contract. This includes type, maturity, notional value, price and settlement date. This confirmation is subject to specified deadlines that vary according to the type of trade, date of execution and type of counterparty. For AIFs undertaking interest rate or credit default swaps, confirmation must be made two business days following the date of execution for trades made after 15 March 2013. From 1 March 2014, this reduces to one business day. ■

SWEDEN

Sweden's export-led economy slowed over 2012 in response to weakening global demand and the protraction of the sovereign debt crisis in the eurozone. The suspension of investment spending over H2 2012 in advanced economies and a further deterioration of consumer confidence—both key drivers of Sweden's export market—resulted in economic growth stagnating over Q4 2012. At 0.8%, 2012's GDP growth represents a sharp fall on the 3.7% achieved in 2011[1]. Nevertheless, Sweden remains one of the few economies to have avoided recession and, while end-2012 GDP was weak absolutely, it was strong relative to the performance of other European economies ***(see Chart 1)***.

Given more positive signals for 2013, economic growth is expected to recover over the year to 1.2%. While this remains below trend, it represents an earlier and stronger rate of recovery than anticipated in most other European markets. This forecast assumes an acceptable resolution to the stalemate following the Italian elections and to the banking crisis in Cyprus, thereby avoiding a further wave of market uncertainty, volatility and delayed recovery.

Sweden's stronger performance is due to a number of external and internal economic drivers. First, the recovery in the United States has gained traction and China is slowly returning to stronger trend growth. While the recovery of global demand is modest, this will assist in stabilizing export demand over 2013, compensating for weaker demand from Sweden's major European trading partners. Similarly, it will assist in stabilizing employment. To date, rising unemployment has been caused by the strong growth of labor supply outpacing modest employment growth. However, employment growth is receding following weaker demand over Q4 2012 and into Q1 2013. This will result in unemployment rising further to 8.5% by mid-year, before stabilizing over H2 2013 ***(see Chart 2)***. However, given low resource utilization, a lag is expected between any recovery in demand and a meaningful improvement in employment data[2]. Export growth is expected to accelerate in 2014, as the US economy shifts from recovery to growth and momentum builds for a wider European recovery from H2 2013 into 2014 ***(see Chart 3)***.

Second, private consumption will provide an important engine of economic growth for the Swedish economy. Consumer confidence fell over H2 2012 in response to a weakening economy and a wave of high-profile job losses. While it has since improved, it remains below trend ***(see Chart 4)***. Despite this, consumer spending slowed marginally over 2012 and private consumption is expected to increase from 1.5% in 2012 to 2.0% in 2013 ***(see Chart 5)***. Real incomes have continued to grow, increasing by 6% since end-2010 as a result of low inflation and modest wage increases. In addition, disposable incomes have been boosted by cuts to the repo rate, while rising house prices have led to a wealth effect. While consumers are anxious, given rising unemployment, household savings ratios are at a 16-year high. Thus, private consumption is expected to increase despite consumer caution. The possibility remains that consumers surprise by merely maintaining consumption and bolstering savings further over 2013, but this represents an upside risk to consumption expectations for 2014. The health of household finances is in stark contrast to many European economies, where austerity programs are leading to a decline in real incomes, including France and the United Kingdom in addition to the southern

[1] SEB Economic Research (2012) Nordic Outlook, February 2012; Nordea Markets Research (2012) Economic Outlook Nordics, March 2012, Nordea

[2] Danske Research (2012), Nordic Outlook, December 2012, Danske Bank

[3] SEB Economic Research (2012) Nordic Outlook, February 2012; Nordea Markets Research (2012) Economic Outlook Nordics, March 2012, Nordea

peripheral economies. In these markets, weak consumption is acting as a drag on economic growth.

Third, Sweden is in the enviable position of being able to adopt an expansionary fiscal policy. A fiscal stimulus program amounting to some SEK 23 billion will be implemented in 2013. Further stimulus of SEK 25 billion is expected for 2014, given the need for continued support and in the context of an election year. While this results in a deterioration of public finances, Sweden's sovereign debt is low. By end-2014, government debt will amount to 36.2% of GDP, which is low against the historical trend and relative to wider European markets. This stimulus, including infrastructure and youth employment and skills programs, amounts to approximately 0.7% of GDP in both 2013 and 2014. In addition, the repo rate remains expansionary at 1.0%. There is some debate as to whether a further rate cut is plausible in April, with the Riksbank juggling competing trends. On the one hand, rising unemployment, falling resource utilization and low inflation point to a further rate cut to 0.75% in H1 2013. On the other, the Riksbank is concerned as to the impact of rising house prices and credit growth on household indebtedness. Given the more recent stabilization in house prices, SEB research forecasts a rate cut, while Nordea research suggests that, given positive economic signals, the Riksbank will prioritize curbing further growth in household debt[3]. Given continued expansionary policy in the world's major economies, an upward rate movement is not anticipated until 2015 *(see Chart 6)*.

Chart 1: Swedish & Eurozone GDP Growth, 2004-2014f (%)

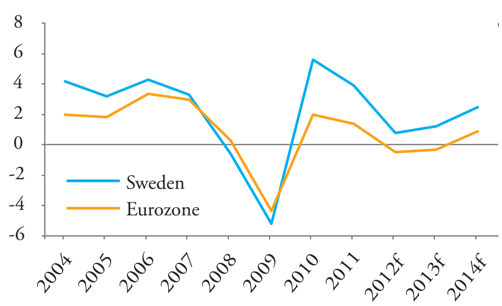


Chart 2: Unemployment Growth, 2004-2014f (%)

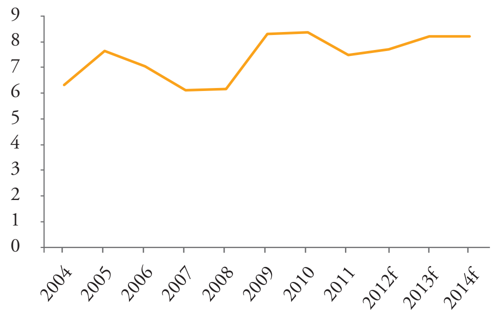


Chart 3: Export Growth (% GDP)

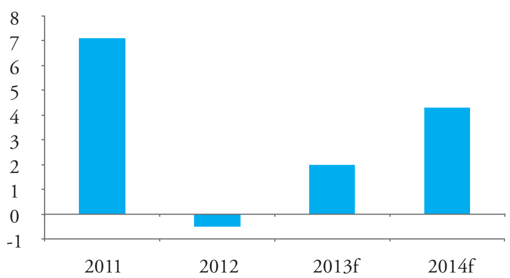


Chart 4: Consumer Confidence, Jan 1996 - Feb 2013

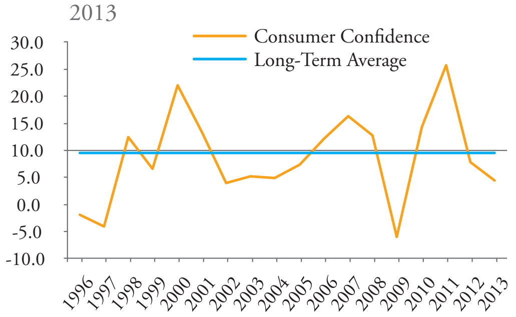


Chart 5: Private Consumption Growth, 2004-2014f (%)

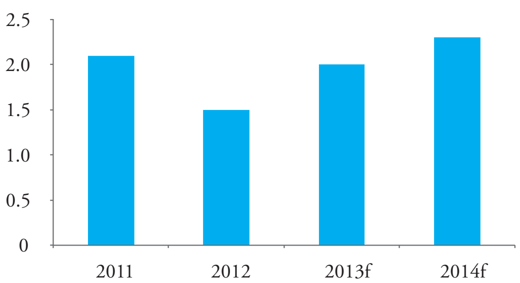
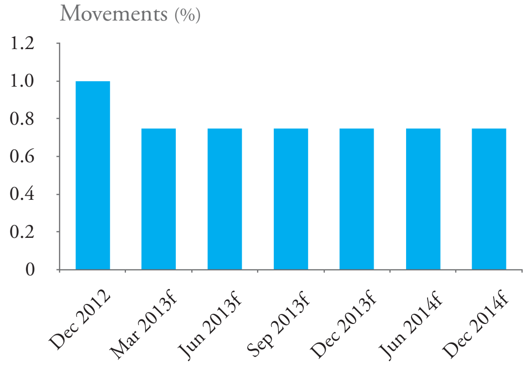


Chart 6: Forecasts of Official Interest Rate Movements (%)



Sources: Eurostat, SEB, Feb 2012; Eurostat, Dec 2012; SEB, Nov 2012

FINLAND

Economic growth contracted over 2012 by 0.1%. The deepening of the global economic slowdown over H2 2012 eradicated earlier hopes of a recovery to growth following a decline in GDP over Q2 2012. The Finnish economy is weighed down by exposure to cyclical export goods as well as structural difficulties in its key export sectors, including the ICT and paper industries. Looking forward, the outlook for economic growth remains weak, even on the assumption that the euro crisis is not reignited by the eventual outcome of the Italian elections and the banking crisis in Cyprus. GDP forecasts for 2013 and 2014 are positive, at 0.4% and 1.7%[1], respectively. However, growth expectations have been revised downward over the quarter by some 40 and 50 basis points, respectively ***(see Chart 1)***. While Finland's economic growth prospects remain above the eurozone average, prospects are weak across all components of growth.

The decline in export demand has been most severe for the manufacturing sector. As a percentage of GDP, goods exports contracted by 10% over the final quarter of 2012[2]. This was driven by a number of factors in addition to the decline in world demand. The calendar of public holidays meant there were fewer working days than usual in December 2012, generating an impact from fewer working days. More enduring are the structural problems in the ICT sector, notably the decline in Nokia's market share. Looking forward, export growth is expected to recover very gradually over 2013. However, the muted upward trend masks declining profitability due to deteriorating trade terms and a rising cost base. Export growth is expected to remain modest but to gather a stronger momentum over 2014 as global demand accelerates.

Weak export demand and deteriorating capacity utilization will further constrain investment spending, which declined over 2012 by 2.9% ***(see Chart 2)***[3]. Given that investment spending trends lag export growth and the prevailing overcapacity, further contraction is expected over 2013 before a bounce in investment spending of 4.2% in 2014. The decline in export growth has weakened the current account, which fell into deficit in 2012 despite weaker domestic demand for imports resulting in a trade surplus ***(see Chart 3)***.

While below trend at 0.8%, private consumption remained positive over 2012 despite weak consumer confidence in the context of a declining economic outlook and pressure on personal finances ***(see Chart 4)***. Private consumption is anticipated to remain weak in H1 2013, gradually improving over H2 2012 and into 2014. Real incomes will remain under pressure over 2013. Austerity measures including VAT hikes will diminish disposable incomes, add some inflationary pressure and will erode wage growth. Savings ratios turned negative in 2012 and remain low, providing little opportunity for households to supplement spending from savings. The labor market has proved resilient, surprising on the upside over Q4 2012. Nevertheless, unemployment is expected to escalate over H1 2013 to 8.5% before gradually declining to 8.2% at end-2013 and, given low capacity utilization, very marginally over 2014 to 8.1% ***(see Chart 5)***[4].

While governments' finances are in negative territory, at -1.0% Finland's fiscal deficit is modest in comparison to wider European markets ***(see Chart 6)***. Similarly, at 50% sovereign debt remains relatively low. In addition, the banking sector is well capitalized and

[1] SEB Economic Research (2012) Nordic Outlook, February 2012

[2] Eurostat, March 2013

[3] Nordea Markets Research (2012) Economic Outlook Nordics, March 2012, Nordea

[4] SEB Economic Research (2012) Nordic Outlook, February 2012

[5] Danske Research (2012), Nordic Outlook, December 2012, Danske Bank

[6] Laven, Z and Santi, F, (2013) EU Austerity and Reform, European Institute

has a low direct exposure to peripheral economy sovereign or banking sector debt. This structural stability continues to win international investor confidence and provides Finland with a buffer against external shocks in the pricing of sovereign bonds from wider financial market volatility. Indeed, Finland has maintained its triple-A rating and continues to enjoy one of the lowest risk premiums on its debt[5].

Nevertheless, to maintain its triple-A rating Finland must reduce its government debt. Weak export demand has resulted in debt levels continuing to rise despite the implementation of austerity measures. These include a EUR 631 million reduction in government spending and a EUR 49 million cut to the defence budget in addition to the aforementioned VAT hike[6]. Given the inability to implement fiscal stimulus policy to reduce debt through driving economic growth, the government must decide whether to introduce further austerity measures and dampen domestic demand further, or extend the timeframe for debt reduction. The latter presents a potential risk to maintaining Finland's credit rating; however, given the stability of the economy, the impact of such a downgrade is likely to be limited.

Chart 1: Finnish & Eurozone GDP Growth, 2004-2014f (%)

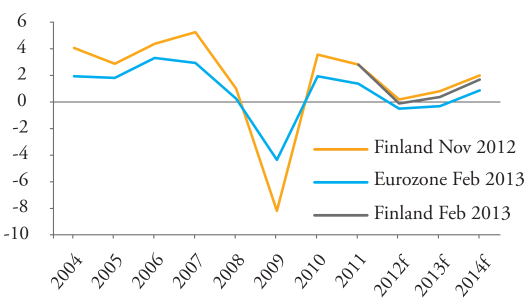


Chart 2: Export Growth and Investment Spending, 2000-2014 (% GDP)

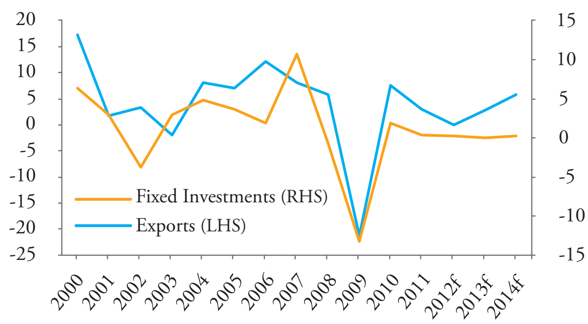


Chart 3: Current Account Balance, 2000-2014f (%)

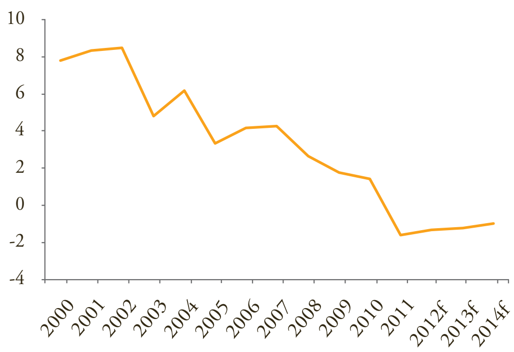


Chart 4: Consumer Confidence, 1996 - Feb 2013

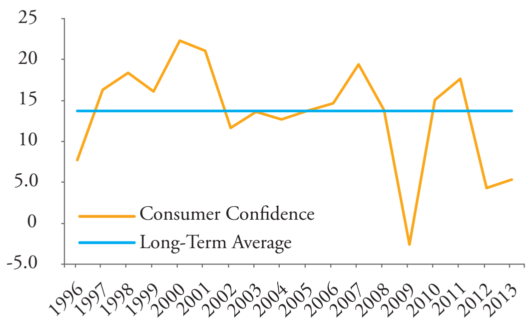


Chart 5: Unemployment versus Employment Growth, 2000-2014f (%)

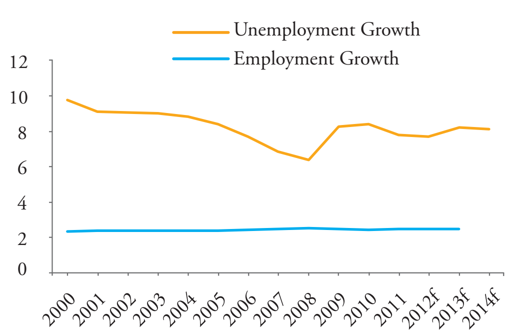
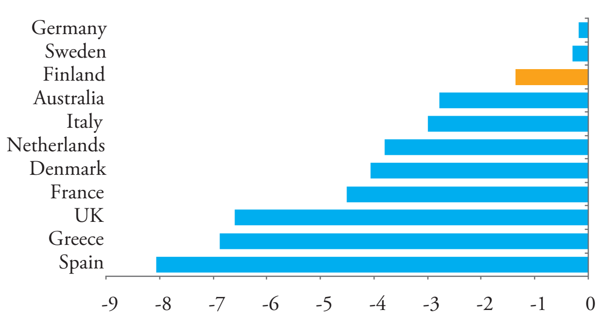


Chart 6: Fiscal Deficit at End-2012 by Country (%)



Sources: SEB, Nov 2012; Feb 2013; OECD; IMF; SEB, Nov 2012; Feb 2013; Eurostat, March 2012; OECD, March 2013

DENMARK

The Danish economy returned to recession in 2012, with GDP contracting by 0.6% ***(see Chart 1)***[1]. Since 2009, the stronger economic performance of Denmark's key trading partners, Sweden and Germany, buoyed demand for exports. Given weak domestic demand, the Danish export market provided a valuable external source of growth for the economy and assisted in avoiding a downward economic spiral. Over 2012, the escalation of the euro crisis in place of the expected recovery mid-year ensured that even growth in the formerly insulated northern European markets slowed down, as business and consumer confidence slumped. As a result, demand for Danish exports in H2 2012 fell to its lowest level since H1 2009[2].

Demand for exports is expected to remain weak, but stable over H1 2013 ***(see Chart 2)***. Low demand will characterize H1 2013, given the weakness of the wider euro area economies. However, improved competitiveness in Denmark leaves it well positioned. The market will benefit from the earlier acceleration of economic growth in its principal trading partners, Germany and Sweden, in addition to the uptick in global demand. This will strengthen into 2014 and will be augmented by increasing domestic demand as investment spending resumes.

While short-term forecasts have been revised downward, economic growth is expected to turn positive by end-2013, but at 0.7% to remain weak. The gradual strengthening of a number of economic components over 2013 and 2014 will enable the growth momentum to build to 1.7% for 2014. Importantly, this growth stems from a gradual strengthening of domestic demand in addition to an expected recovery of export markets.

Private consumption returned to positive territory on a year-on-year basis over 2012, increasing by 0.5% ***(see Chart 3)***[3]. While this is weak and annual data masks the contraction that occurred over H2 2012, it was delivered against a backdrop of a 1% decline in real disposable incomes over the same period. This was aided by increased liquidity due to the distribution of early retirement contributions, but it does indicate that as household finances improve they will translate into consumer spending as well as savings. Looking forward, private consumption growth is expected to stagnate over 2013 as household finances remain under pressure from weak real wage growth and a fragile housing market. Indeed, consumer confidence remains well below the long-term trend although it improved in February ***(see Chart 4)***. At 1.5%, private consumption growth is expected to resume more convincingly over 2014, as disposable incomes benefit from marginal real wage growth, changes to taxable income thresholds and greater stability in housing and labor markets. However, household wealth in many households is still hampered by the burden of negative equity despite strong savings. While improving, the contribution of consumption to the economy will remain modest.

The low-growth environment pervading over 2013 is expected to result in a further deterioration of the labor market, with unemployment increasing from 4.8% at end-2012 to 5.1% at end-2013 ***(see Chart 5)***[4]. In contrast to the preceding years, this will be most marked in the private sector, with public sector employment considered to have fully adjusted. The expected uptick in export demand from H2 2013 will assist in absorbing low capacity utilization with a more lagged effect on employment growth in 2014.

[1] Eurostat (2013), March 2013

[2] Danske Research (2012), Nordic Outlook, December 2012, Danske Bank

[3] Nordea Markets Research (2012) Economic Outlook Nordics, March 2012, Nordea

[4] SEB Economic Research (2012) Nordic Outlook, February 2012

Since 2009, a number of economic programs have been implemented as short-term tactical measures and longer-term strategic policies. Tactical measures have primarily focused on stimulating the economy through public investment, investment incentives and income tax reliefs. While such measures have helped to underpin economic performance, the desired stimulus effect has been impeded by the weakening of global demand and heightened uncertainty surrounding the euro crisis. As a result, shattered consumer and business confidence impeded consumer and investment spending. However, the strategic policies tackling structural issues, particularly in relation to labor market supply and improving industry competitiveness, have been more successful. Moreover, such reforms are fully financed, enabling public sector debt to remain low ***(see Chart 6)***. Positively, Denmark is well positioned to benefit from an early shift from recovery to growth as the wider European recovery gathers momentum from 2014.

Chart 1: GDP Growth, 2004-2014f (%)

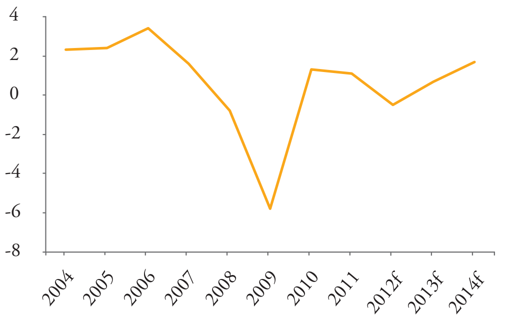


Chart 2: Export Demand, 2008-2014f (% Change)

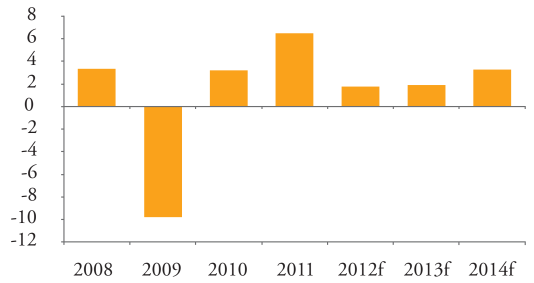


Chart 3: Private Consumption Growth, 2011-2014f (%)

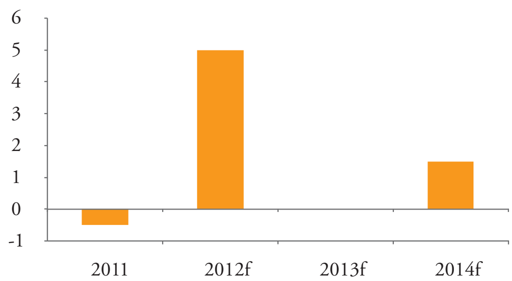


Chart 4: Consumer Confidence, 1996-2013

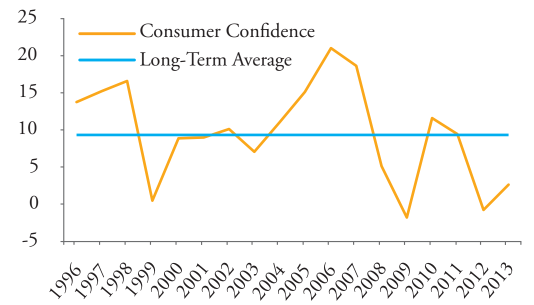


Chart 5: Unemployment versus Employment Growth, 2011-2014f (%)

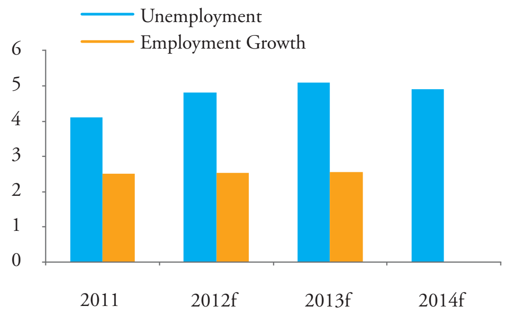
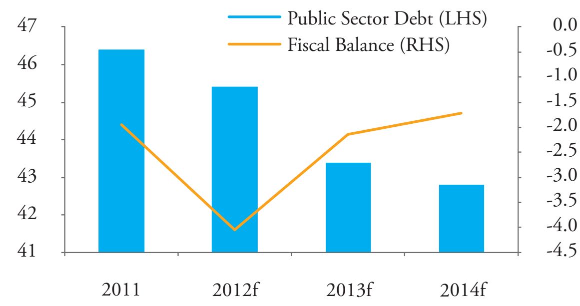


Chart 6: Public Sector Debt, 2011-2014f (% GDP)



Sources: IMF; SEB, Feb 2013; Eurostat, March 2012; OECD, March 2013

NORWAY

The Norwegian economy was largely unfettered by the slowdown in global demand and the protracted euro crisis over H2 2012, delivering mainland GDP growth of 3.5% over the year. Although export growth slowed, this was compensated for by the strength of domestic demand. This will continue to characterize component contributions to economic growth over 2013 and 2014. Looking forward, mainland growth is expected to slow marginally in 2013 and 2014 to 2.9% ***(see Chart 1)***[1].

Although consumption growth appeared to stagnate over H2 2012, broader data suggests this will be subject to revision or is an anomaly. At 3.2%, private consumption growth over 2012 was robust relative to wider European countries, particularly as it is accretive following three previous years of successive growth ***(see Chart 2)***. However, annual data masks differences in consumption patterns between H1 and H2. By the end of Q2 2012, consumption had increased by 3.0%, but stalled over Q3 2012 and initial data suggests it contracted marginally over Q4 2012. However, supporting data provides little explanation. Consumer confidence increased over the same period. Indeed, Norway is one of the few countries in Europe to have consumer confidence above the long-term average. Real wage growth has been strong, given a tight labor market and low inflation ***(see Chart 3)***. Data suggests that the savings ratio increased sharply above trend. Real household disposable income is expected to rise by 4.5–5.0% in 2013 and 2014. Consequently, consumption growth is expected to resume its upward trend and is forecast to deliver 3.2% and 3.1% growth in 2013 and 2014.

Similarly, employment data paints a confused picture[2]. Labor force survey (LFS) data suggests that employment growth stalled in Q4 2012, slowing from 2.6% in Q2 2012 to 0.2% in Q4 2012. Over the same period, the unemployment rate jumped from 3% to 3.5%, primarily due to expansion of the labor supply ***(see Chart 4)***. However, there is no corresponding increase in the unemployment benefit count; indeed, this decreased slightly[3]. While export growth is expected to slow, given weak demand and the high cost of goods stemming from a strong NOK, this is largely offset by the strong prospects of the oil services sector. While investment growth in the sector is slowing, it remains accretive. Current investment levels are well above trend. Similarly, residential investment growth is forecast to increase further. Thus, while employment growth will moderate, it will remain positive ***(see Chart 5)***. Given a lag in the labor supply response, unemployment is expected to increase slightly over the short term until labor immigration adjusts.

The strong price growth in the housing market is a potential risk to market stability[4]. House price growth has increased sharply since late 2008 and by some 17.4% since end-2010. This has been driven by a demand-supply imbalance in the context of strong population growth, strong household formation growth, low interest rates and rising real incomes. The supply pipeline is expanding and population growth should start to moderate. However, the overhang of demand suggests that the lag in supply may result in further strong house price growth over 2013, increasing the risk of a strong adjustment mid-term. However, the introduction of stricter capital requirements for mortgage lending will result in stricter credit standards, higher lending rates and an overall dampening of lending appetite. This will assist in cooling the housing market.

[1] SEB Economic Research (2012) Nordic Outlook, February 2012

[2] Nordea Markets Research (2012) Economic Outlook Nordics, March 2012, Nordea

[3] SEB Economic Research (2012) Nordic Outlook, February 2012

[4] Danske Research (2012), Nordic Outlook, December 2012, Danske Bank

The strength of Norway's economy and its strong government finances have resulted in a strong appreciation of the NOK. This is expected to persist until the euro crisis abates and a wider European economic recovery gains momentum. Norges Bank is balancing the maintenance of interest rate spreads with other markets and is therefore keeping the deposit rate stable against managing the expansion of household credit growth. Raising the interest rate would further appreciate the NOK and lower the competitiveness of export markets, while a failure to raise it could result in markets overheating. The introduction of stricter capital requirements on lending should ease concerns as to rising household debt ratios in the near term, enabling an interest rate hike to be delayed to Q3 2013 at the earliest *(see Chart 6)*. If the wider European economy has shifted onto a firm growth path, financial markets should be characterized by a stronger appetite for risk, taking pressure off the NOK. Moreover, by 2014 the euro area is expected to also be raising interest rates, allowing Norges Bank to keep pace with the upward trajectory.

Chart 1: GDP Growth (Total versus Mainland Norway), 2011-2014f (%)

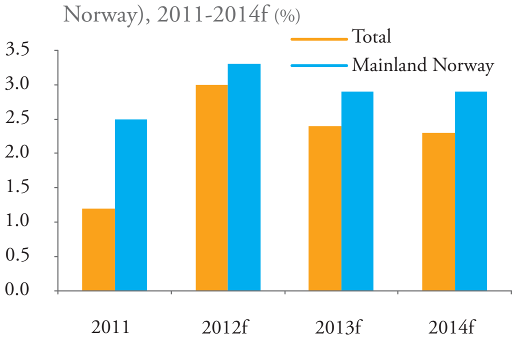


Chart 2: Consumption Growth, 2006-2014f (%)

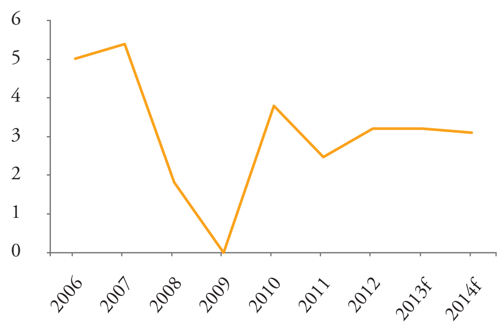


Chart 3: Real Wage Growth, 2010-2014f (%)

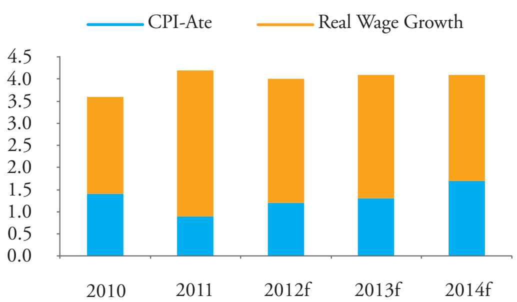


Chart 4: Index of Expansion of Labor Supply

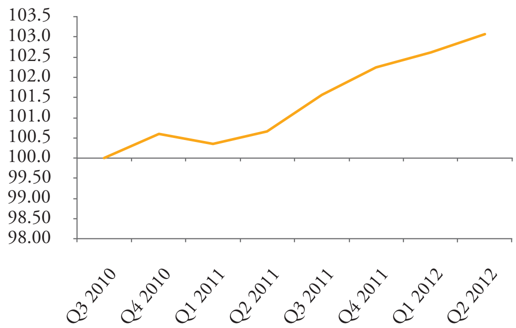


Chart 5: Unemployment versus Employment Growth, 2004-2014f (%)

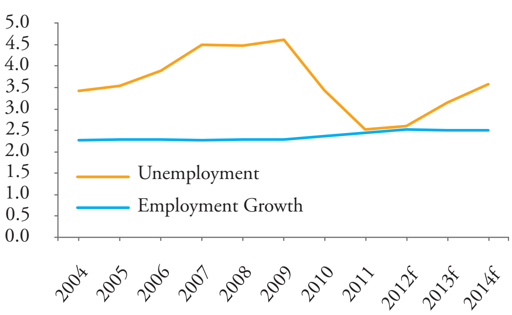
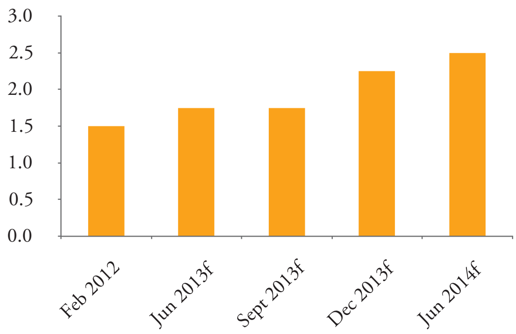


Chart 6: Forecasts of Official Interest Rate Movements (%)



Sources: Eurostat, SEB, Feb 2013; OECD, March 2013; Genesta, 2013; Nordea Research, March 2013; IMF, Feb 2013


Value-Add at Genesta
For realized investments...
62% IRR
10%+ growth in NOI per year
3.0 Equity Multiple

SWEDEN

Sweden has a population of 9.6 million, which has increased by an average of 0.8% per year over the past five years. Just over 22% of the Swedish population lives in the Greater Stockholm area, and this population has grown by an average of 1.8% per year over the past five years. In 2011, Sweden had a GDP of USD 538 billion, about USD 57,000 *per capita*. Initial estimates from SCB show that Swedish GDP was about 1.4% higher in Q4 2012 than in the same period in 2011. The unemployment rate in December 2012 was 7.4%, a slight increase of 0.3% on the December 2011 figure.

The Investment Market

The high levels of activity that occurred on the Swedish property market in December 2012 resulted in transaction volume for the fourth quarter of close to SEK 42 billion. This was the highest quarterly figure since the third quarter of 2008, when AP Fastigheter acquired Vasakronan from the Swedish government for SEK 41.1 billion. A strong 2012 first half also contributed to the overall transaction volume for 2012, which—at a total of SEK 107 billion—was the highest recorded transaction volume since 2008. The share of foreign investors continued to rise and reached 19% in 2012; this compares to 15% in 2011. The 19% for 2012 represents the highest proportion of foreign investors since 2008.

Interest in the office sector fell during 2009–2010. Instead, it was the residential sector's stable cashflows that attracted investors, and the sector accounted for the largest share of transaction volume during 2009–2010. In 2011, the office sector once again accounted for the largest share of transaction volume and this trend continued in 2012, when the sector took a share of nearly 40%. The residential sector continued to attract a decent amount of capital throughout 2012. The retail sector's share of transaction volume showed the largest decrease and in 2012 was more or less halved, from 21% for 2011 to 12%.

In December 2012, it was announced that the Finnish company Citycon and Canada Pension Plan Investment Board had acquired Kista Galleria from DNB Livsforsikring ASA, part of the DNB Group. The buyers, who will own 50% each, paid about SEK 4.6 billion for the shopping center, which is the highest-ever purchase price for a single property in Sweden. In September 2005, the Norwegian insurance company Vital Forsikring ASA (DNB) acquired the 50% share in Kista Galleria owned by the German company IBI Real Estate, and in October 2010 became the sole owner by acquiring the remaining 50% owned by Länsförsäkringar Liv. Kista Galleria contains 90,000 m2 of lettable area, of which 60,000 m2 is lettable retail

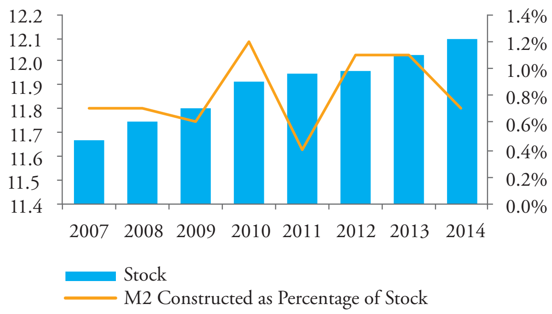
List of Transactions - Top 8 - Greater Stockholm Area - Q4 2012

No.	Object	Location	Buyer	Seller	Property Type	Value (SEK million)	Size (m2)	Yield (%)
1.	Kista Galleria	Stockholm (Kista)	Citycon and CPP Investment Board	DNB	Shopping Center	4,600	90,000	~ 5.5
2.	Portfolio (5 Properties)	Stockholm (Kista, Kungens Kurva, Bålsta)	SveaReal	Fortin Properties (DNB)	Office and other	2,600	145,000	6.0-6.25%
3.	Klara Strand	Stockholm (CBD)	Niam	Skanska	Office and other	~ 1,100	34,000	N/A
4.	Klamparen 10	Stockholm (Kungsholmen)	KLP	Fabege	Office	962	21,000	5.0-5.5%
5.	Part of Vattenfall's former Headquarters	Stockholm (Råcksta)	Alecta	Svea-fastigheter	Residential Project	~ 750	32,400	N/A
6.	Building Rights	Nacka (Kvarnholmen)	Folksam and Peab	KF Fastigheter	Residential	~ 675	N/A	N/A
7.	Keflavik 1	Stockholm (Kista)	LaSalle Investment Mgmt.	Nordika Fastigheter	Office	~ 350	25,000	N/A
8.	146 Rental Apartments	Stockholm (Lidingö)	John Mattson Fast.	JM	Residential Project	~ 350	N/A	N/A

Transaction Volume Quarterly | Sweden (SEK billion)

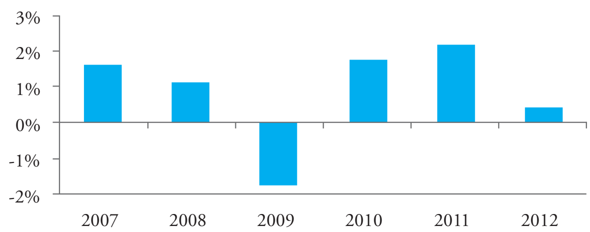
Source: Newsec

Greater Stockholm - Office (M m2)



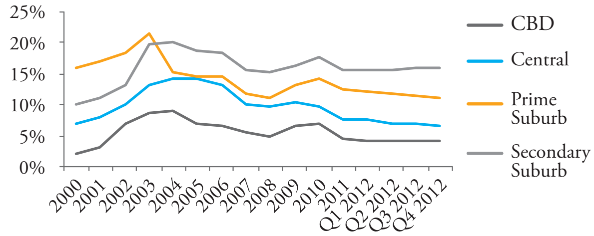
Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

Stockholm Office Vacancy



Source: Newsec

space. The remainder of the property comprises a hotel, student housing, healthcare facilities and business areas leased by the city council. The Galleria was completely renovated and extended in 2002, and further extended in 2009. The direct initial yield for the transaction is estimated to have been just below 5.5%.

The Office Market

It is estimated that the total office stock in Greater Stockholm amounts to approximately 12 million m2. Stockholm CBD is considered to be the most attractive office area and its stock totals about 1.9 million m2. Central Stockholm, excluding the CBD, has an office stock of about 4.3 million m2. The main office areas in Greater Stockholm are found in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby.

New Supply

In 2012, only a few new-construction projects were started, and of these only Fabege's Scandinavian Office Building in Arenastaden will provide more than 10,000 m2 of office space. A fair number of projects with completed general master plans are currently ready to be started in the Greater Stockholm area. If property developers' aversion to risk persists and banks continue to require a high proportion of equity when lending to development projects, the result may be that only a few projects will be started in 2013 as well. In a worst case scenario, the amount of completed, newly-produced office space in 2015 and 2016 may end up as low as that of 2011, about 45,000 m2, compared to 140,000 m2 in 2010 and just under 130,000 m2 in 2012. The small addition of newly-produced office space in 2011 was largely due to the negative economic sentiment that prevailed in 2008 and 2009.

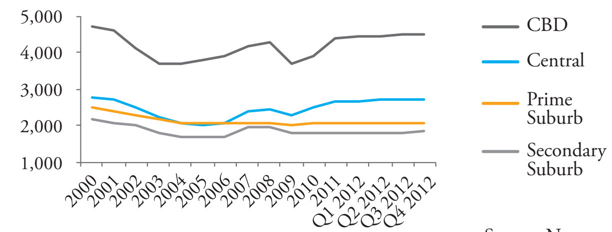
In step with a number of large companies that are moving from office properties in the outer suburbs to established office areas in the inner suburbs or the inner city, the number of conversion projects has increased. Notable among these conversion projects are Vattenfall's former headquarters in Råcksta, which the company left in fall 2012, moving to Arenastaden, and Ericsson's two former office properties in Älvsjö and on Telefonplan, both of which the company left in favor of Kista.

The top four office projects in Sweden are all being built in the Greater Stockholm area. In January 2012, Råsta Holding, which is jointly owned by the Municipality of Solna, Fabege and Peab, sold land valued at SEK 630 million to Unibail-Rodamco that is earmarked for the development of the Mall of Scandinavia shopping center. Linked to this transaction, Fabege bought building rights for 45,000 m2 of office space from Råsta Holding for SEK 70 million. Construction of the Mall of Scandinavia has begun and Fabege has produced a concept for the office building right that it acquired. The Scandinavian Office Building, which is the name Fabege has chosen for the office building, will consist of three blocks with a total of 42,000 m2 of office space. As the office building will be built on top of the southern part of the shopping center, it will not be ready before fall 2015.

The Occupier Market

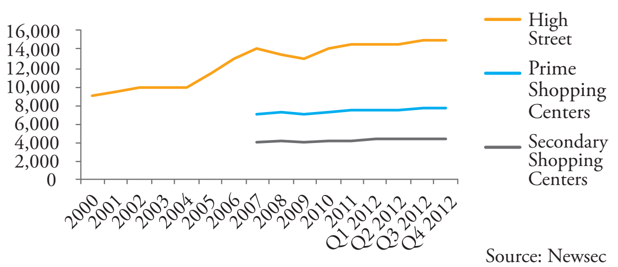
Rental levels in modern, space-efficient office properties in Stockholm CBD remained stable at around SEK 4,500 per m2 during the fourth quarter of 2012.

Stockholm Office Rent (SEK/m2)



Source: Newsec

Stockholm Retail Rent (SEK/m2)



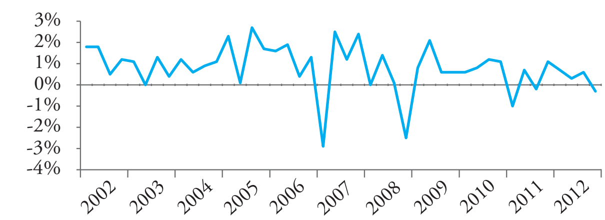
Source: Newsec

The vacancy rate in the CBD is expected to remain stable at around 4% up to the end of 2013 and then to slightly increase as the announced relocations take place. The Inner City has become an interesting alternative to the CBD, where rents are at an historically high level. The Inner City vacancy rate decreased by 0.5% to 7% during the fourth quarter of last year. Inner City rents remained stable and are estimated at SEK 2,700 per m2.

The situation on the Stockholm rental market is more or less divided into two parts. Attractive vacant premises in inner-city locations in general and in the CBD in particular are in short supply and disappear rapidly from the market. In these locations, it is property owners who hold the advantage in

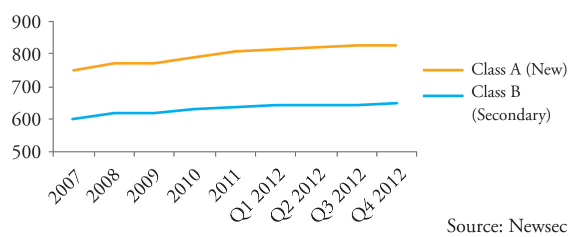
Retail Trade Turnover | Sweden

(Percentage change on previous period)



Source: Eurostat

Stockholm Logistics Rent (SEK/m2)



Source: Newsec

List of Office Projects - Top 5 - Sweden - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Lustgården Office Building	Stockholm (Kungsholmen)	Skanska	55,000	2011	2014
2.	New Headquarters for Swedbank	Stockholm (Sundbyberg)	Humlegården	44,000	2011	2013
3.	Scandinavian Office Building	Stockholm (Arenastaden)	Fabege	42,000	2012	2015
4.	New Headquarters for the Swedish Security Service	Stockholm (Huvudsta)	Specialfastigheter	35,000	2010	2013
5.	Rättscentrum i Malmö	Malmö	Vasakronan	34,000	2010	2013

List of Retail Projects - Top 5 - Sweden - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Mall of Scandinavia	Stockholm	Unibail-Rodamco	95,000	2012	2015
2.	Torp Retail Area	Uddevalla	Ikano/IKEA/Steen & Strøm	40,000	2010	2013
3.	IKEA/Ikano Shopping Center	Umeå	Ikano/IKEA	35,000	2012	2014
4.	Norra Backa	Borlänge	Ikano/IKEA	35,000	2011	2013
5.	Mobilia - Phase III	Malmö	Atrium Ljungberg	29,000	2011	2013

negotiations with tenants. However, in less attractive submarkets and for office premises in unmodernized properties, rent discounts and contributions toward moving costs are becoming ever more common during relocations and renegotiations.

It is expected that between fall 2013 and spring 2016, Swedbank, Nordea, SEB and Försäkringskassan will all either greatly reduce the space they lease in Stockholm CBD or will leave the district entirely and set up operations instead in the inner suburbs. This means that a total of about 160,000 m2 of office space will become empty, representing nearly 10% of the office stock in the CBD. The properties will become empty at intervals and will be rebuilt and upgraded before they are returned to the market. Several property owners have presented plans about how the areas about to be vacated should be improved. These relocations will exert downward pressure on rents over the mid term. However, given the relatively strong performance of the Swedish economy over the mid to long term and the existing small supply of vacant space, rents are predicted to remain stable over the mid term despite the relocations. We think the probability is low that we will see any significant rental growth during the next three years.

The Retail Market

Household caution is clearly reflected in the retail trade, which is only showing a slow pace of growth. However, retailing made a strong start to 2012, showing its strongest performance since spring 2011. Even though there were minor fallbacks throughout the year, growth figures have been stable with the exception of the fourth quarter.

Retail sales increased by 2.3% in 2012 according to HUI, the Swedish Retail and Wholesale Trade Research Institute. This figure is calendar-corrected and at fixed prices. Factors in favor of a continuing stable future trend in the near term are the low interest rates and continued stable employment. On the other hand, the continued problems in the eurozone, albeit improved, will continue to weigh on sentiment. Domestic consumption is the most important engine in the Swedish economy. Households' real disposable incomes are estimated to have risen by 2.6% in 2012, compared to 3.5% in 2011. Incomes are expected to rise in 2013–2014 due to a combination of a stable labor market, wage increases and low inflation. The consumer confidence indicator weakened markedly in the second half of 2012 and stands well below its historical average value. The household savings ratio as a share of disposable income was just over 10% in 2012, a level that is expected to continue in 2013–2014.

New Supply

About 500,000 m2 of new retail space is planned to be developed in the Greater Stockholm area up until 2015. The largest project is the Mall of Scandinavia next to the new National Arena for football in Solna, which will consist of about 100,000 m2 divided among 250 stores. During the fourth quarter of 2011, Unibail-Rodamco acquired building rights for the intended project area. Täby Centrum, also owned by Unibail-Rodamco, is to add about 25,000 m2 of retail space, which is expected to be completed in 2015.

The Occupier Market

High Street retail rental growth was fairly stable throughout the second half of the 2000s, due to the inherent stability of Swedish private consumption. High Street prime rents increased to SEK 15,000 per m2 during Q3 2012 and were stable during the fourth quarter of 2012.

The most sought-after addresses in central Stockholm are found along Biblioteksgatan, Norrmalmstorg and in Gallerian. There are no major retail projects currently underway in these areas. As a result of the growth in population and a moderately rising consumption in Stockholm, the demand for retail premises in good locations is high, which is pushing rents upward. The supply of good retail locations in central Stockholm is relatively limited, which will further drive the upward movement in rents. The general trend for store premises is toward smaller floor areas as the requirement for high space-efficiency grows.

The Logistics Market

The logistics market is correlated to private consumption, which is expected to be one of the major growth engines in the Swedish economy during coming years. The demographical center in Sweden is located in a triangle between Stockholm, Gothenburg and Jönköping—and within that triangle are the prime locations for logistics properties. Moreover, locations connected to logistics clusters and transportation hubs, combined with the building functionality, are essential factors for both tenants and investors. The most attractive locations are along the major highways and railways, but locations close to ports have become more attractive during recent years due to an increasing environmental consciousness.

The Occupier Market

Rental levels for prime logistics properties are currently slightly above SEK 800 per m2 in Stockholm. Tenant demand for good logistics premises with locations connected to logistics clusters and transportation hubs will remain stable due to expectations of resilient domestic growth during 2013–2014. Few speculative developments are ongoing as a result of the weak industrial market. This has led to a decreasing supply of vacant logistics space. ■

FINLAND

Finland has a population of 5.4 million, which has increased by an average of 0.5% per year over the last five years. Finland's population grew by about 6,000 during the fourth quarter of 2012, which was some 2,000 less than in the corresponding period of 2011. The Greater Helsinki area accounts for just over 25% of the Finnish population, and this population has grown by an average of 1.2% per year during the last five years. In 2011, Finland had a GDP of USD 267 billion, about USD 49,000 *per capita*. According to Statistics Finland´s Labor Force Survey, the number of unemployed persons in December 2012 was 180,000, equivalent to an unemployment rate of 6.9%. The corresponding figure in December 2011 was 192,000, equivalent to an unemployment rate of 7.4%.

The Investment Market

In 2012, the Finnish real estate investment market brightened up, seen against 2011. Transaction volume in 2012 was up slightly, at EUR 2.11 billion compared to EUR 1.77 billion the year before. The transaction market continues to be sluggish compared to the years before the financial crisis, but international investors were active on the Finnish property market throughout 2012. This higher level of interest from foreign investors partly explains the increased transaction volume. These investors are mostly inte¬rested in properties in Helsinki city center that will maintain good liquidity even in weaker market con¬ditions. The forthcoming increase in transfer taxes could have a positive impact on transaction volume during the first half of 2013.

In the fourth quarter of 2012, a fund managed by Exilion Capital Oy purchased Nokia´s headquarters for about EUR 170 million in a sale-and-lease-back deal. The property is located in the Keilaniemi area of Espoo. Nokia´s headquarters consists of three office buildings constructed between 1996 and 2001 and a parking garage serving the offices. The lettable area encompasses about 48,000 m2, together with the parking garage that offers approximately 1,250 spaces. Under the deal, the premises were leased back to Nokia Oyj on a long-term lease.

The construction company YIT and the investment company HGR Property Partners sold the historic property at Ruoholahdenkatu 23 to a fund managed by Cordea Savills. The purchase price for the 7,000 m2 property was about EUR 27 million. Ruoholahdenkatu 23 was built in 1913. Its premises have undergone a total overhaul, and conversion into modern office and business premises was completed in February 2013. In December 2012, Ruoholahdenkatu 23 was awarded a Gold Level Certificate based on the LEED Core & Shell standards. This high-level classification was received not just as a result of the overhaul and conversion but also because of the location of the property in an urban environment with easy access to several different public transport alternatives.

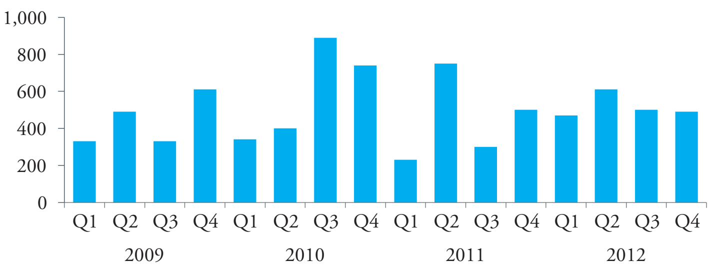
The Office Market

The size of the total office stock in the Finnish university cities is about 11 million m2; the largest volumes are in the Helsinki Metropolitan Area (HMA), Tampere, Turku and Oulu. About 8.6 million m2, or 75% of the

List of Transactions - Top 8 - Greater Helsinki Area - Q4 2012

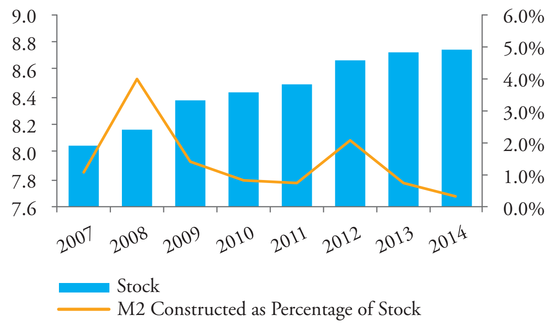
No.	Object	Location	Buyer	Seller	Property Type	Value (EUR million)	Size (m2)	Yield (%)
1.	Nokia Headquarters	Espoo	Exilion Real Estate I Ky	Nokia	Office	~170	48,000	N/A
2.	Koy Ruoholahdenkatu 23	Helsinki	Cordea Savills	YIT and HGR	Office	27	7,000	N/A
3.	Lauttasalmi	Helsinki	Hartela	Teosto ry	Office	7.25	N/A	N/A
4.	Klinkkerinkaari 2	Vantaa	SaKa Hallikiinteistöt Oy	Sponda Plc	Retail	N/A	6,200	N/A
5.	Espoon Juvan Teollisuuskatu 19	Espoo	N/A	N/A	Industrial	N/A	3,724	N/A
6.	123 Rental Apartments	Vantaa, Hämeen-linna	Icecapital Housing Fund III	NCC Housing	Residential	N/A	N/A	N/A
7.	63 Apartments	Helsinki, Vantaa	Icecapital Housing Fund III	SRV	Residential	N/A	N/A	N/A
8.	Vantaan Tiilitie 11	Vantaa	Julius Tallberg-Kiinteistöt	Primula (Bank-rup. Est.)	Industrial	N/A	N/A	N/A

Transaction Volume Quarterly | Finland (EUR milllion)



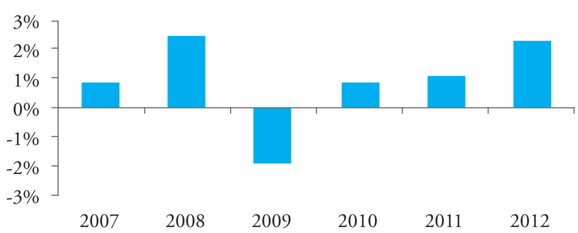
Source: Newsec

Greater Helsinki - Office (M m2)



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

List of Office Projects - Top 5 - Finland - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	MREC Tietotie 11	Vantaa	Ilmarinen	70,000	2011	2013
2.	Derby Business Park, Phase II	Espoo	SRV	19,700	2012	2013
3.	Ernst & Young Office Building	Helsinki	Etera	19,000	2012	2014
4.	KPMG Office Building	Helsinki	Etera	18,500	2012	2013
5.	Aitio Business Park, Phase I	Helsinki	NCC Property Development	15,000	2011	2013

total stock, is located in the HMA, which is the commercial center of Finland. Of the HMA office stock, approximately 70% is located in Helsinki itself. The Helsinki CBD is the most attractive office submarket in the HMA, offering the best accessibility and making up the favored location for many head offices. The prime submarkets are important sections of the HMA office market and consist of Ruoholahti, Sörnäinen and Kalasatama in Helsinki, new upcoming office areas in Töölönlahti, Keilaniemi and Leppävaara in Espoo and Aviapolis in Vantaa.

New Supply

There are several office projects in the planning stage that could be completed in the years to come. Many developers are awaiting signs of a better economic climate or a certain occupancy rate before they are willing to initiate a project. However, there are still several ongoing office projects.

The new-construction projects that were completed during 2010 and 2011 added little capacity, a result of the financial turmoil of 2008–2009. New construction during 2012, approximately 180,000 m2, was higher than during previous years as a result of the completion before year-end of several new headquarters projects. As a consequence, the level of new office completions for 2013 has been revised and is now estimated to amount to about 100,000 m2.

Tietotie 11 is the office project closest to the airport in the Vantaa HMA submarket. The building will be completed in the summer of 2013 and is close to fully let. The building will house companies like Suomen Matkatoimisto, Aurinkomatkat, Amadeus Finland, Area and Finnair. The location is good and accessible from the ring and main roads. The new Ring Rail railway line will also pass close to the location.

Derby Business Park consists of three eight-story office buildings and a separate eight-story car park. Derby Business Park will be completed in phases during 2012 and 2013. Companies like SRV Oyj, Siemens Oy and Datawell Oy have leased office space in the building. The first of the three buildings has been completed and is fully leased by SRV, which is the developer of the project.

The Occupier Market

Office rental development is expected to stay at a moderate level in the HMA as a whole. However, in Helsinki CBD the rental development has exceeded, and is expected to continue to exceed, the general price level development. On other submarkets, the rental development is expected to be moderate or close to zero in the near future.
In Helsinki CBD, the prime rent was kept stable at EUR 336 per m2 in the fourth quarter of 2012. The rental levels in the most popular business parks are relatively stable, whereas in weaker areas new contracts are occasionally signed at lower levels. The prime office yield in Helsinki CBD decreased from 5.4% in the second quarter of 2012 to 5.2% in the third quarter, caused by an improving market, and has since remained stable.

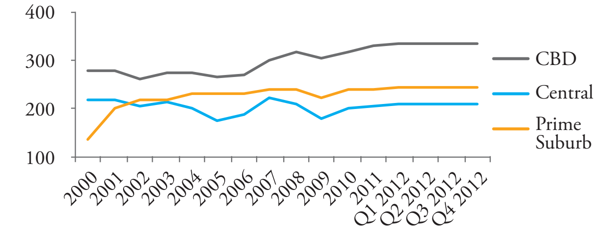
The vacancy rate in the Helsinki CBD will increase slightly in the near future when tenants from the area move to new office projects in Töölönlahti. This increase in vacancy will not last long, as there is strong demand from companies to rent office space in the area. In the years to come, office projects in new areas, e.g. Kalastama, will change the structure of the Helsinki office market. On secondary submarkets, the vacancy rate is expected to increase and the difference between locations will become apparent.

The Retail Market

About 50% of the retail stock in the HMA is located in Helsinki, and about 25% each in Espoo and Vantaa. Large stores have for a long time played a substantial role in the Finnish everyday commodity trade. The market share of stores larger than 2,000 m2 is approximately about 60–70%. The difference between prime and secondary areas is apparent. A large proportion of the shopping centers in secondary areas are old and are located in the suburban areas of Helsinki.

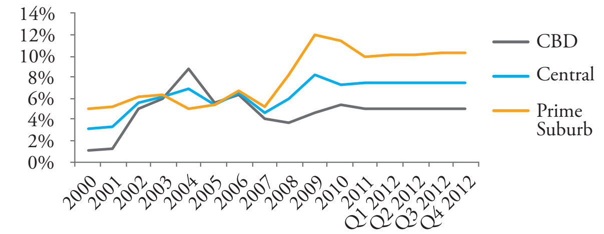
Retail trade turnover in Finland has been relatively strong over the last three years, although there has been a lot of volatility on the development side. Combined with a relatively good consumer confidence level, even in economically tough times, and strong private consumption, this has

Helsinki Office Rent (EUR/m2)



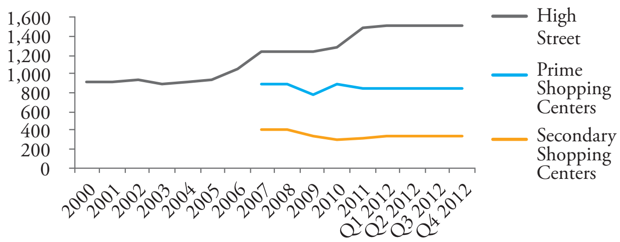
Source: Newsec

Helsinki Office Vacancy



Source: Newsec

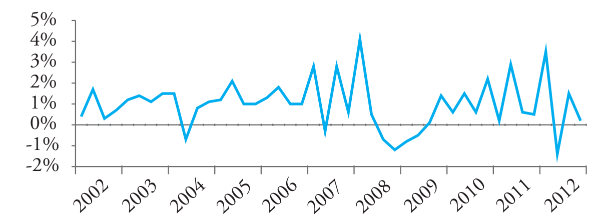
Helsinki Retail Rent (EUR/m2)



Source: Newsec

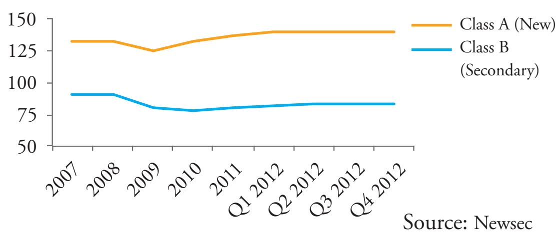
Retail Trade Turnover | Finland

(Percentage change on previous period)



Source: Eurostat

Helsinki Logistics Rent (EUR/m2)



Source: Newsec

List of Retail Projects - Top 5 - Finland - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Shopping Center Puuvilla	Pori	Renor/Ilmarinen/Skanska	55,000	2012	2014
2.	Hämeenlinna Shopping Center	Hämeenlinna	Keva/NCC PD	30,000	2012	2014
3.	Kokkolan Hypermarket	Kokkola	Kesko	20,000	2011	2013
4.	K-Rauta Retail	Turku	YIT Rakennus Oy	16,000	2012	2013
5.	MMREC Lielahticenter	Tampere	NCC Property Development	15,000	2012	2014

fueled development. The first quarter of 2012 started off well with a retail sales growth level of 3.7%, but the second quarter showed signs of weakness, with a retail trade turnover growth level at –1.3%. At the end of 2012, the retail trade turnover growth level for the year was just above 0%. The negativity is also reflected in the confidence of retail wholesalers, which was clearly weaker than normal at year-end, according to a survey conducted by the Confederation of Finnish Industries.

New Supply

When completed, Puuvilla will be the biggest shopping center in the Satakunta region and among the top 10 in Finland. At completion, the center will encompass approximately 55,000 m2 of retail and office space. Renor Oy and Ilmarinen are the owners behind the project, with equal shares. Skanska is responsible for construction. The total investment value of the construction project is approximately EUR 130 million.

The Hämeenlinnakeskus is a new shopping center in Hämeenlinna that will be located above the Tampere motorway.The mutual insurance company Keva purchased the project from the developer, NCC Property Development, in the first half of 2012. The project is due for completion in 2014 and will consist of 26,000 m2 of retail space and over 600 parking spaces. Some multifamily apartment buildings will also be constructed as part of the shopping mall project.

The Occupier Market

Retail rents have to some extent followed developments in the office sector. In Helsinki, High Street retail rents increased throughout the second half of the 2000s. At the end of the fourth quarter of 2012, High Street retail rents were EUR 1,510 per m2, i.e. there has been no rental increase since the second quarter of 2012. Historically, High Street rents have grown faster than other retail segments. In the coming three years, High Street retail rents are expected to remain stable or to increase slightly.

The Logistics Market

Owner-occupation is a characteristic of the Finnish logistics market. So far, this sector has avoided oversupply due to the low level of speculative development. This is the case for Helsinki as well and demand during coming years is expected to exceed supply. As a consequence, activity on the industrial and logistics property markets has been lower compared to other property sectors. New investment strategies have also started to become active, e.g. the real estate company Sponda has launched a real estate fund for which the main targets are industrial and logistics properties located in growth centers.

The Occupier Market

Rental levels for prime logistics properties in Helsinki experienced a slight increase during recent years but stayed stable during 2012. Prime rents today stand at EUR 140 per m2; for secondary markets, they are EUR 84 per m2. During the period ahead, up until 2014, prime logistics rents are expected to remain stable. At the same time, the focus is expected to shift to logistics areas located outside of the HMA, along the main road corridors, because of the greater supply of lower-priced land to build on. ■

NORWAY

Norway has a population of close to 5.1 million, which has increased by an average of 1.3% per year over the past five years. A percentage growth of this magnitude was last experienced during the 1920s and it makes Norway a stand-out compared to other European countries. The Greater Oslo area accounts for just over 25% of the Norwegian population and has grown by an average of 2% per year over the past five years. In 2011, Norway had a GDP of USD 484 billion, about USD 97,300 *per capita.* The unemployment rate in Norway is exceptionally low and has been so for many years. In December 2012, it stood at 3.6%, an increase of 0.3% since December 2011.

The Investment Market

During 2012, transaction volume in Norway was quite high. To find corresponding volumes, you need to go back to the boom years of 2006 and 2007. Transaction volume in 2012 totaled NOK 51 billion, a 45% increase on the 2011 transaction volume of NOK 35 billion. The fourth quarter of 2012 had a particularly large impact, with about NOK 21 billion in transaction volume. In the last quarter, no less than four transactions exceeded a volume of NOK 1 billion. The largest transaction in 2012 was the Sektor Shopping Center portfolio sold by Niam Fund V for a price exceeding NOK 7 billion to a Norwegian consortium of private investors. Niam will stay on as owner of 27.5% of the portfolio. The largest single properties sold were the DNB HQ in Bjørvika, sold for NOK 4.8 billion in Q1 2012, and the Statoil HQ in Fornebu, sold for NOK 3.2 billion.

The bond market started to play a more significant role throughout the year, as banks started weighting down their exposure to commercial real estate. It is estimated that about 85% of the financing of real estate assets in 2012 was done by conventional bank loans and about 15% was financed by the bond market. By comparison, the bond market accounted for less than 5% of the total financing volume in 2011. Banks are, however, now starting to reassess their appetite and are more interested in taking part in the funding of real estate.

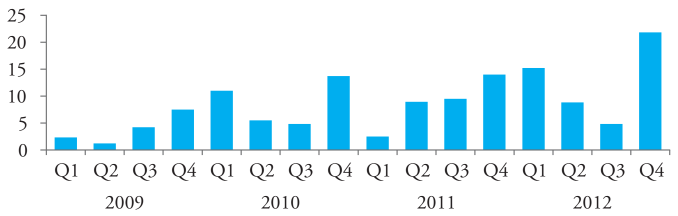
In the fourth quarter of 2012, Statoil's large office building in Fornebu outside Oslo was sold. The 65,000 m2 office building was acquired by a syndicate of investors. US investor Madison International Realty assumed a senior role in the purchasing syndicate and provided 35% of the equity. The developer, IT Fornebu, kept a 30% equity stake and is responsible for the building's maintenance. The transaction was Norway's second largest single-asset real estate transaction in 2012. The building, which is of exceptionally high quality, was completed in September 2012 and is fully-let leased to Statoil on a 15-year lease.

Investors are showing greatest interest in core office properties and properties with long leases, resulting in low yields for properties with these characteristics. For such properties, the yield since 2011 in the Oslo CBD (essentially the prime yield) has been about 5.25%. The prime yield is expected to stay at 5.25% this year. Residential projects are still considered attractive by investors and several of the larger transac-

List of Transactions - Top 5 - Greater Oslo Area - Q4 2012

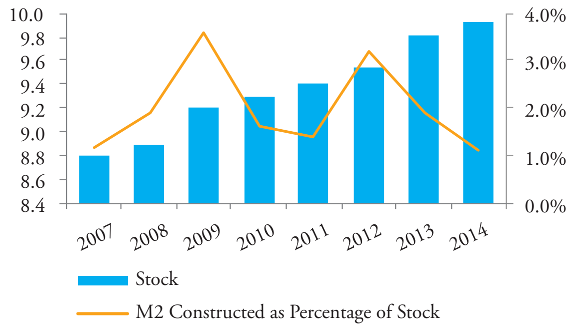
No.	Object	Location	Buyer	Seller	Property Type	Value (NOK million)	Size (m2)	Yield (%)
1.	Statoil Building	Oslo (Fornebu)	Syndicate with Madison, IT Fornebu and Others	IT Fornebu Eiendom	Office	3,200	65,500	5.45%
2.	Youngs g. 7-9/Torgg. 13/ Hammersborgg. 12	Oslo (Center)	Industri Energi	Entra Eiendom AS	Office	567	N/A	N/A
3.	Fridtjof Nansens plass 6	Oslo (Center)	Andvord	Lani	Office	360	6,700	4.90%
4.	Essendropsgate 3 and 5	Oslo (West)	NRP	DNB Liv	Office	320	11,330	6.25%
5.	Fyrstikkalleen 1-3	Oslo (East)	Oslo Areal	Fearnley Finans	Office	300	N/A	N/A

Transaction Volume Quarterly | Norway (NOK billion)



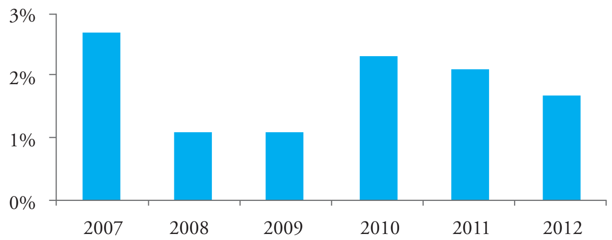
Source: Newsec

Greater Oslo - Office (M m2)



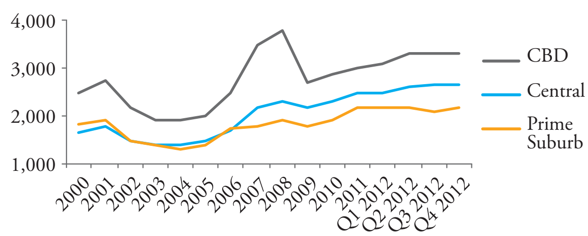
Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

Oslo Office Rent (NOK/m2)



Source: Newsec

List of Office Projects - Top 5 - Norway - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	New Office for Statnett	Oslo (Nydalen)	Avantor	22,000	2011	2013
2.	New Office for Kongsberggruppen	Oslo (Asker)	Oxer gruppen	18,000	2012	2014
3.	Ullern Panorama	Oslo (Oslo West)	Selvaag	17,700	2012	2014
4.	Østensjøveien 27, Ø27	Oslo (East)	NCC Property Development	16,800	2012	2013
5.	New HQ for DNB - The last phase	Oslo (Bjørvika)	DNB/OSU	16,500	2011	2013

List of Retail Projects - Top 5 - Norway - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Sørlandssenteret	Kristiansand	Olav Thon	73,000	2010	2013
2.	Åsane Senter	Bergen	Steen & Strøm and Nordea Liv	70,000	2010	2017
3.	Økernsenter	Oslo	Steen & Strøm	~50,000	2010	2017
4.	Jekta kjøpesenter	Tromsø	Coop Nord	~35,000	2010	2013
5.	Fornebu S	Oslo	KLP	25,000	2012	2014

tions in 2012 were residential conversion projects. There continues to be a large price differential in m2 prices between office buildings and residential buildings, and this is driving residential conversions.

Secondary properties have suffered a yield increase in 2012, both due to the low availability of financing and due to risk-averse investors. Value-added properties with the right qualities should remain attractive and should represent a large proportion of the transaction market in 2013.

The Office Market

The total office stock in Oslo is approximately 9.8 million m2. The Oslo CBD is relatively small compared to the other Nordic countries. The most attractive and highest-priced office locations are in the Vika and the Aker Brygge areas. However, Bjørvika and the area around the Central Station have formed a new part of the CBD and the significance of Bjørvika will increase as developments are completed in the years ahead. The other major submarkets are Skøyen, Lysaker, Fornebu, Nydalen, Helsfyr and Bryn, all located outside the city center.

New Supply

The relatively large amount of m2 constructed per year in Oslo is due to the fact that tenants, especially the larger occupiers, demand highly space-efficient offices. The amount of new construction in greater Oslo as a percentage of stock has been about 2% per year on average over the past five years. Compared to Stockholm, where the corresponding figure is between 0.5% and 1%, Oslo has seen a substantial amount of new development, relative to its stock. Throughout the global financial crisis, the net take-up as a percentage of stock in Oslo remained positive on a full-year basis, while both Stockholm and Helsinki showed negative take-up figures in 2009.

A record high 300,000 m2 of office space was constructed in 2012. The two largest buildings, the 65,500 m2 Statoil HQ and the 60,000 m2 DNB HQ, accounted for about 40% of this. Despite this large volume in 2012, vacancy stayed stable throughout the year and is about 7.9%. With approximately 180,000 m2 being constructed in 2013 and an estimated 70,000 m2 of office space to be converted to residential premises, vacancy is expected to drop down to below 7.5% by the year-end and will continue to fall in 2014. Continued strong macro fundamentals with high employment underpin this scenario. Local markets will of course be affected by micro-level events, such as the existing CBD that will suffer from increased vacancy due to the 40,000 m2 that will become vacant after DNB's relocation to Bjørvika.

The developer NCC Property Development has an ongoing office project at Østensjøveien 27 in Oslo, named Ø27. The building will consist of six floors and comprise 16,800 m2 of offices. Ø27 is centrally located on Brynseng, with a short distance to public transport nodes and close to Ring 3. It is estimated that the project will be completed in December 2013 and the majority of the office space is pre-let.

Oslo S Utvikling AS (OSU) is the developer behind DNB's new headquarters, which will consist of three office buildings with a total lettable area of about 80,000 m2. The buildings will be completed from 2012 to 2013 and accommodate 4,200 DNB employees. The new headquarters is located in the middle of the new Opera district in Bjørvika, Oslo CBD. On 1 October 2012, the first phase of the project was finished; this comprises 50,000 m2. The last phase in this project consists of 16,500 m2 and will be completed during 2013.

The Occupier Market

Office rents in Oslo increased during 2012. The average increase for all office segments was 6%, whereas Oslo Center and Skøyen saw a double-digit increase in rents. The Oslo CBD was up about 3%. The prime category in these segments increased even more. Oslo Center saw several large lease contracts signed in 2012 and a drop in vacancy. The effects of the 22 July 2011 bombing led the governmental state departments to lease more than 90,000 m2 of office space in central Oslo and in Nydalen. This pushed rental levels up to record high levels.

For 2013, the trend is expected to continue; rents will increase in central Oslo and this rental growth will also to some extent spill into other areas of Oslo. Nydalen, especially, seems poised to experience an increase, with vacancy levels falling steadily throughout 2012. However, the large volume becoming vacant after DNB's relocation should have an impact on the rents in the Oslo CBD and rents are expected to stay stable in the near term.

The Retail Market

Throughout the first seven years of the 2000s, retail trade turnover and consumer confidence in Norway were at a high level. The financial turmoil of 2008–2009 broke this trend, with an increase in unemployment and weaker forecast growth. Retail trade turnover has increased since, with only minor slumps in 2010–2012.

The retail statistics showed growth in retail sales but at a lower level than expected for 2012 and it ended up just 0.2% for the year from November 2011 to November 2012. Most of the increase in retail sales happened before the summer and after that sales slowed down. The growth in shopping center sales also stagnated; December 2012 was especially weaker than expected, down 1% from 2011 and down 5% during the last week of the year, compared to the same week in 2011. The effect of smaller grocery shops taking customers from the large center-based shops as well as internet trade growth has become increasingly apparent.

New Supply

Over the past 20 years, the total floor space in Norwegian shopping centers has quadrupled, and today more than one-third of all Norwegian retail trades take place in shopping centers. Hence, Norway has one of the highest *per capita* levels of retail space in the world. The level of new developments has fallen lately as a consequence of the relatively saturated market. There are also regulatory restrictions that in many cases impede the development of further retail space.

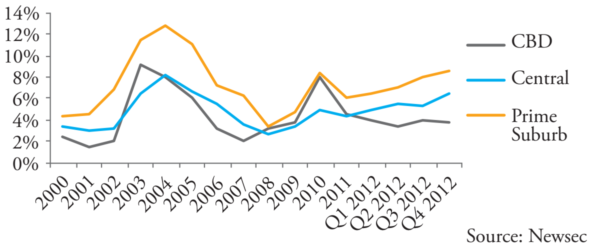
There are, however, some plans for new shopping centers and for expansion of existing centers. Sørlandssenteret, close to Kristiansand in the south of Norway, is undergoing a major expansion. 73,000 m2 of new retail stores will be completed in 2013. Together with the existing 44,500 m2, this will make Sørlandssenteret the largest shopping center in Norway in terms of floor area.

Steen & Strøm is projecting a 50,000 m2 shopping center in Økern, Oslo. The project is one of the most ambitious urban development projects in Oslo and will in total comprise about 250,000 m2. Apart from the shopping center, the development will also include a kindergarten, private residences, offices, a water park, a cultural center, restaurants, a library, a museum and health services.

The Occupier Market

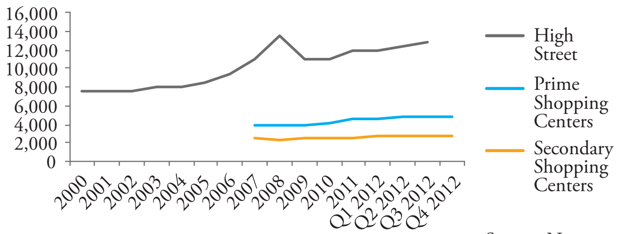
Retail rents increased in a steady pace during 2012 and the trend is expected to continue in 2013. Several international players are targeting the best locations in Oslo Center, especially at and around Karl Johan. Gucci recently decided to open a store at Steen & Strøm Magasin and Apple Store is on its way to a corner on Karl Johan. Several others, primarily luxury brands, see Oslo and Norway as the place to be, with a fast-growing economy and increasing personal wealth. Vacancies are close to none in good locations on High Streets and prime shopping centers. The Norwegian economy has an inherent stability, fueled by the oil sector, strong governmental finances

Oslo Office Vacancy



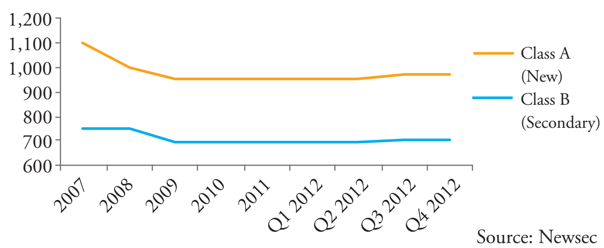
Source: Newsec

Oslo Retail Rent (NOK/m2)



Source: Newsec

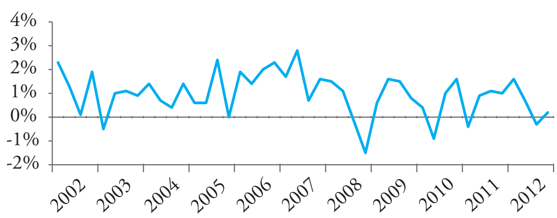
Oslo Logistics Rent (NOK/m2)



Source: Newsec

Retail Trade Turnover | Norway

(Percentage change on previous period)



Source: Eurostat

and strong population growth. This will provide opportunities for continued rental increases during the next few years.

The Logistics Market

The demand for logistics facilities by operators in the Greater Oslo area has been steady for a long time. The major operators, those who require larger logistics facilities, are in most cases located along the roads south toward Europe and north of Oslo where the roads lead into the interior of the country. Operators who require smaller logistics facilities usually locate closer to the city, in areas such as Groruddalen, Alnabru and Ulven. The Vestby and Ski areas that are located along the roads south of Oslo toward Europe and the industrial area around Gardermoen Airport are focused on national distribution. These areas are currently undergoing development into logistics hubs.

The Occupier Market

Norway in general and Oslo in particular has a population that is growing rapidly. Permission for development of new industrial and logistics areas within the Greater Oslo region is rarely granted. Policymakers rather prefer residential or office developments. Hence the demand for class A logistics properties in the proximity of transportation hubs is high, keeping rental levels up.

The cost of logistics premises in Norway is almost twice as high as it is in Sweden, which has led to an increasing number of operators considering moving their operations across the national border. This, combined with competition between developers on lease contracts, has led to downward pressure on rental levels during recent years. Over time, we expect construction costs for logistics facilities in Norway to move down toward the lower construction costs found in other countries in northern Europe, and this could result in falling rents and lower m2 prices over the long term.

DENMARK

Denmark has a population of 5.6 million, which has increased by an average of 0.5% per year over the past five years. The Greater Copenhagen area accounts for about 22% of the Danish population and this has grown by an average of 1.2% per year over the past five years. In 2011, Denmark had a GDP of USD 333 billion, about USD 60,000 *per capita*. The unemployment rate in Denmark rose significantly in 2009 and after its peak in 2010 unemployment has remained relatively stable over the last three years. The unemployment rate in December 2012 was 6.1%, an increase of 0.2% compared to December 2011.

The Investment Market

Liquidity on the Danish transaction market continued to be low in 2012, compared to the years before the financial turmoil of 2008–2009, with a total volume of DKK 17.6 billion. The main focus in both office and retail investment markets is prime properties with long leases and strong tenants. These types of properties are easily traded in the current market, but the supply is fairly low. In the secondary markets, investors anticipate the risk premium to be very high and the price difference between what the buyer will pay and what the seller expects is wide. Consequently, the number of transactions recorded in this sector is low.

Financially strong investors, such as institutional investors and well-consolidated property companies, are retaining their dominant role in the market. The debt crisis has negatively affected the banking sector, which has resulted in difficulties in obtaining financing, in particular for investors seeking relatively high leverage. However, transaction volume in the fourth quarter of 2012 was nearly 50% higher than that of the corresponding quarter of 2011. It is estimated that Copenhagen will benefit from a favorable demographic development during coming years, which is one explanation for the primary interest of foreign investors in large residential portfolios in the capital city. The supply of these objects is limited, however.

The new Nordea headquarters, which is expected to be completed in 2016, was acquired by three large pension funds as a turnkey project in the fourth quarter of 2012. The project consists of about 40,000 m2 of office space and was bought for DKK 1.3 billion. The property is located in Ørestad Nord, which is situated close to the CBD area in Copenhagen. The price reflects a yield of around 4.75%, which is at the lower end for a commercial property. The tenant is considered to be strong and the lease length is significant.

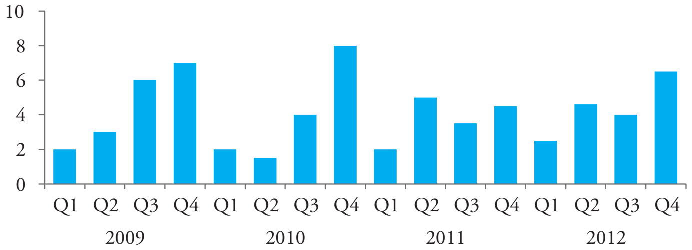
The Danish hotel investment market has been a rather illiquid market but in the fourth quarter of 2012 the hotel investor Pandox announced an acquisition of four hotels in Denmark. Three of the hotels are located in Greater Copenhagen outside the city center and the fourth is located in Kolding in Jutland. The hotels were bought at a total price of DKK 580 million, which reflected a price per room of around DKK 800,000. The hotels were sold by the Norwegian investor Fearnley.

Over the last couple of years, there has been an increasing demand from foreign investors for prime retail properties located on the High Street in Copenhagen. Købmagergade 11A has a prime location on a part of the High Street area in Copenhagen that has seen increasing footfall. The property was

List of Transactions - Top 5 - Greater Copenhagen Area - Q4 2012

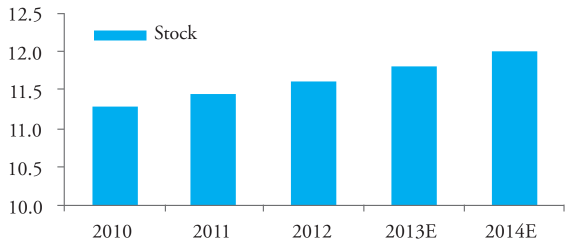
No.	Object	Location	Buyer	Seller	Property Type	Value (DKK million)	Size (m2)	Yield (%)
1.	Nordea Headquarters	Copenhagen (CBD)	Nordea Liv & Pension, PFA and PensionDanmark	Nordea Bank	Office	1,300	40,000	4.75%
2.	Hotel Portfolio	Greater Copenhagen	Pandox	Fearnley	Hotel	580	25,000	N/A
3.	Købmagergade 11A	Copenhagen (CBD)	Patrizia Immobilen	Glitnir	Retail	207	2,950	5.25%
4.	Taastrup Torv	Copenhagen (Taastrup)	NREP	CASA	Retail	200	12,000	7.50%
5.	Gyngemose parkvej 64	Copenhagen (Søborg)	SPG	PFA and Danica Pension	Office	140	12,000	5.50%

Transaction Volume Quarterly | Denmark (DKK billion)



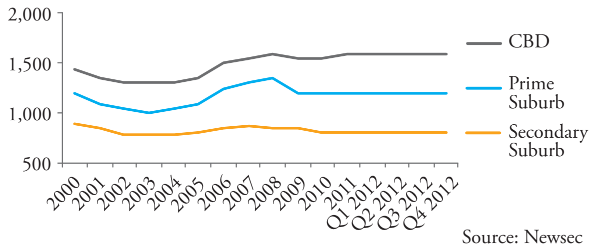
Source: Newsec

Greater Copenhagen - Office (M m2)



Source: Newsec

Copenhagen Office Rent (DKK/m2)



Source: Newsec

List of Office Projects - Top 5 - Denmark - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	UN-city, Marmormolen	Copenhagen	ATP/PensionDanmark	45,000	2010	2013
2.	New Headquarters for Nordea	Copenhagen	Nordea	40,000	2012	2016
3.	Scala	Copenhagen	EjendomsSelskabet Norden	23,000	2012	2015
4.	Bestseller	Aarhus	Bestseller	22,000	2012	2014
5.	Industriens Hus	Copenhagen	DI	16,000	2010	2013

List of Retail Projects - Top 5 - Denmark - Q4 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1	Slagterigrunden	Odense	Steen & Strøm	45,000	2012	2015
2.	City 2 - Designer outlet	Høje-Taastrup	Danica Pension	20,000	2012	2013
3.	Rødovre Centrum	Greater Copenhagen	Rødovre Centrum	13,500	2012	2013
4.	Taastrup Torv	Taastrup	NREP	12,000	2012	2013
5.	Frederiksberg Centret	Copenhagen	Danica Pension	10,000	2012	2014

bought by the German investor Patrizia Immobilien, which made its first retail investment in Denmark.

The Office Market

Office properties located in Copenhagen CBD generate the highest rents, with the top rental levels in office properties by the waterfront. The Copenhagen city districts of Østerbro, Nørrebro, Frederiksberg, Sydhavnen and Amager/Ørestad as well as Hellerup in the northern parts of Copenhagen, Herlev/Ballerup in the western parts of Copenhagen and the West Corridor encompassing the towns of Brøndby, Glostrup and Albertslund are all well known office markets. The office stock in Copenhagen CBD consists of about 5 million m2 and the total office stock in the Copenhagen area amounts to about 11.6 million m2.

New Supply

Construction levels are recovering and are starting to increase after a very long period of slow growth. The population forecast for Copenhagen is strong; it is expected that the city will see long-term growth that will make new construction attractive. Some developers have shown an increased risk appetite, resulting in higher estimated completion levels for new construction in 2013 and 2014 compared to 2012. New construction has advantages in the form of lower energy consumption and space-efficiency that is sought after by tenants.

The amount of new construction completed in 2012 was approximately 140,000 m2. There are some big projects in the pipeline. In 2013 and 2014, the level of construction of new offices is expected to increase, by about 180,000 m2 and 200,000 m2, respectively. This should however be seen in the context of the very low activity between 2008 and 2010 and may be a result of a catching-up effect.

The large Danish fashion wear company Bestseller has decided to move from its current location in Brande in the western part of Denmark to Aarhus. The firm's new headquarters is being erected in the docklands and harbor area of Aarhus, where a new part of the city is being developed. The headquarters will comprise 22,000 m2 of office space and is expected to be completed in 2014.

The Danish employers association Dansk Industri is currently building a large office building at the attractive location of Rådhuspladsen in the center of Copenhagen. The building will overlook Tivoli Gardens, and the building will feature high levels of energy efficiency. Construction work has already started and the project is scheduled to be completed in 2013.

The Occupier Market

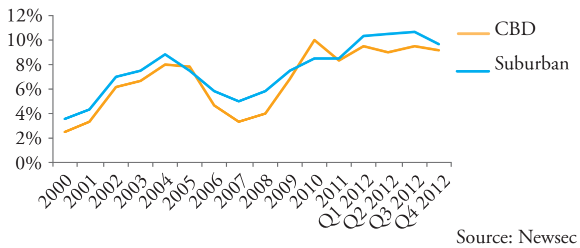
Office rents in Copenhagen CBD during 2009–2010 were about DKK 1,550 per m2. During 2011, the occupier market in Copenhagen slightly improved and the rent rose to DKK 1,600 per m2, the same level as in the fourth quarter of 2012. Newsec estimates that rental levels will stay relatively flat in coming years, due to expected slow growth in the overall economy. Positive employment growth is the key driver of office rental levels. Until employment recovers, rents are expected to stay relatively flat.

The office vacancy rate in Copenhagen CBD increased slightly during 2012, ending the year at just above 9%. This was mainly caused by the euro area debt crisis that led to a slightly increasing unemployment rate. The vacancy rate still represents a surge of more than six percentage points from the low level of about 3% recorded in 2007, and is primarily attributable to the economic downturn.

The Retail Market

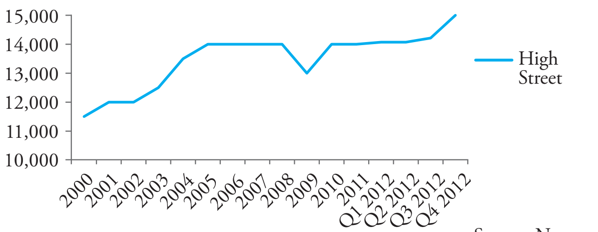
Tight legislation, regulating both the size and location of retail areas, is a characteristic of the Danish retail market. Therefore, Denmark has a large number of High Street or in-town shops and relatively few out-of-town shopping centers and retail parks. However, the law that regulates the opening of

Copenhagen Office Vacancy



Source: Newsec

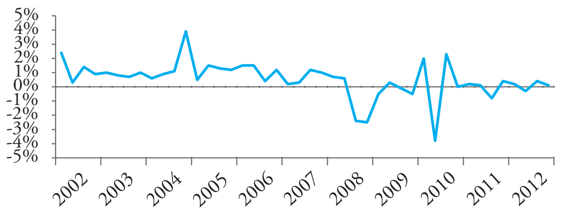
Copenhagen Retail Rent (DKK m2)



Source: Newsec

Retail Trade Turnover | Denmark

(Percentage change on previous period)



Source: Eurostat

retail areas on Sundays was removed on 1 October 2012. Over half of Denmark's 100 largest shopping centers are located in Greater Copenhagen.

In Denmark, household finances are still impaired by the property bubble of recent years. However, Nordic households in general are fundamentally strong and private consumption is expected to be one of the most important growth engines during coming years.

As a result of a low private consumption level in Denmark, a lot of small stores on secondary locations are suffering. Many investors fear that the situation will not improve in the coming years and therefore investor interest in this type of property is low.

New Supply

The Norwegian developer Steen & Strøm is developing a shopping center, Slagterigrunden, in the CBD of Odense. Construction started during 2012 and the center will constitute about 45,000 m2. Another project is City 2 – Designer Outlet. In addition to the large City 2 regional shopping center in Høje-Taastrup, the owner is planning to build a new designer outlet center. The new building will comprise 20,000 m2 and there will be about 80 new shops. West of Copenhagen, in Taastrup Torv, a new local shopping center is being built at Taastrup railway station. The center is fully let and will be completed in 2013.

The Occupier Market

In 2009, renegotiations of lease agreements caused a minor decrease in High Street retail rents. High Street retail rents recovered in 2010 but stayed flat up until 2012. A high demand for prime locations from occupiers throughout 2012 resulted in a rental increase of DKK 1,000 per m2, and at year-end it reached DKK 15,000 per m2, excluding operating costs and taxes. As a result, investor interest in these properties is growing and there is especially a growing interest from foreign investors.

Value-Add at Genesta

For realized investments…

62% IRR

3.0 Equity Multiple

10%+ growth in NOI per year

NORDIC INSIGHT

MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

GENESTA PROPERTY NORDIC

Genesta Property Nordic is a fund and investment manager that specializes in commercial real estate in the four Nordic countries. We invest in office, retail and logistics assets and have offices in Stockholm, Helsinki, Oslo, Copenhagen and Luxembourg. Genesta's assets under management total more than EUR 640 million.

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