NORDIC INSIGHT

GENESTA

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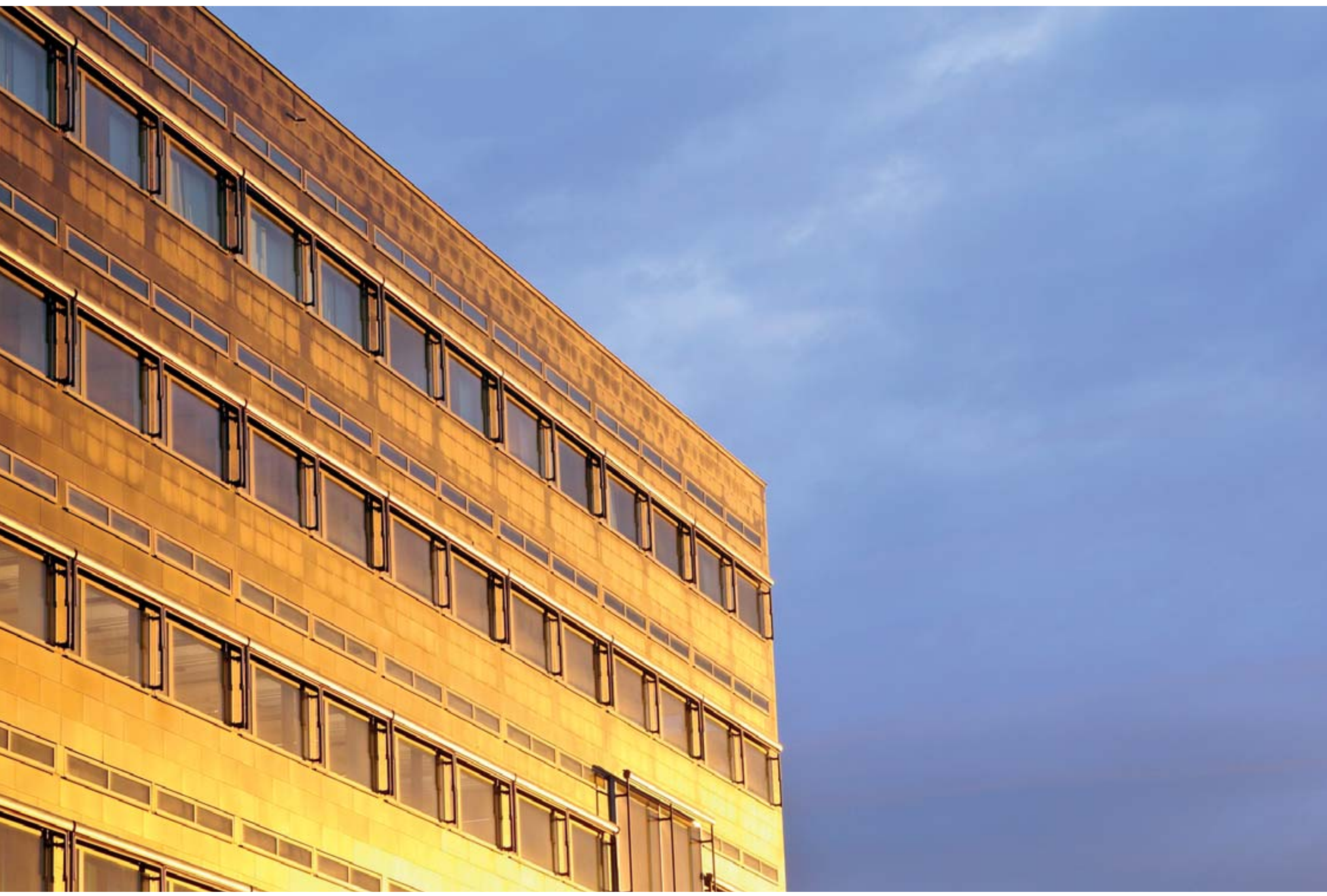
MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



THE DUALITY OF MISPRICING, IS VALUE-ADDED A LOW-RISK OPTION RELATIVE TO CORE?

In the previous edition of *Nordic Insight,* we demonstrated—in the article entitled "How Do Safe-Haven Markets Compare?"—that the Nordic real estate markets are deserving of their perceived safe-haven status. A range of European markets was evaluated across economic, investment and real estate market risk dimensions, and investor perceptions that the Nordic markets offer stronger performance prospects for the lowest levels of risk and uncertainty were verified.

Having demonstrated that investor behavior and up-weighting of allocations to the region is prudent, this article builds on the earlier research by considering the rationality of *how* such capital is invested. In particular, the risk and return components of core and value-added styles of investing are considered in the context of current market dynamics. First, market pricing of core is considered against future performance expectations. Second, what constitutes value-added is defined. Third, the risk components of value-added investing are considered against market fundamentals and pricing. Finally, value-added strategies appropriate to prevailing investor risk aversion are outlined.

Core—A High Cost for Certainty?

Since the downturn, investors in the Nordics have adopted strongly risk-averse core strategies that are narrowly focused on good-quality, income-secure assets in prime locations. Given the low availability of product within what is a finite quantity of stock, prime cap rates have fallen to levels approaching those achieved at the market peak in Stockholm, Oslo and Helsinki ***(see Chart 1).*** At that time, rental growth expectations were considerably stronger, with market pricing reflecting the expectation of strong income growth.

Currently, rental growth prospects are, at best, modest ***(see Chart 2).*** Indeed, as the European economy moves through its "lost decade" of growth, rental growth prospects have been successfully revised downward and the timing of any such growth deferred, reflecting the "less and later" revisions to GDP.

While falling prime yields have eroded spreads with bond rates, the real estate premium remains high relative to historic spreads. This is due to bond rates being held artificially low, for a combination of reasons. First, the financial market turmoil has required monetary policy to remain accommodating. Second, risk aversion across the financial markets has seen increased appetite for safe-haven market government bonds, pushing bond rates to unsustainably low levels in the Nordics, Germany and the United Kingdom.

At the height of the euro crisis, fixed income investors were prepared to accept low and, at times, even negative bond returns to secure certainty. Indeed, the premium that super-prime real estate offered over bonds has itself attracted fixed income investors to the market, compressing yields further. However, bond rates are broadly expected to adopt an upward trajectory mid-term, eroding spreads with real estate and putting upward pressure on prime yields ***(see Chart 3).*** The consensus rental growth forecasts suggest that income return is unlikely to compensate for value loss. For fixed income investors, this depreciation in the value of real estate holdings may be more palatable than that anticipated for bonds. However, value-added may offer an alternative to value erosion for real estate investors.

What is Value-Added Investing?

Real estate is unique in that it is one of the few financial assets that can transform its risk profile over its lifecycle in both directions ***(see Chart 4).*** The same asset can be both a bond and an equity, depending on its ownership and/or risk profile.

While it is more unusual for the prime location to shift, locational attributes change as micro markets mature or as a result of new infrastructure. The leasing profile of an asset, including lease length, rental terms and the tenant's covenant strength, is a key determinant of value and will change over time. By its very nature, a lease is a wasting asset, with its value deteriorating from lease start to expiry.

The perceived quality of a building also changes over time, with new regulations, innovation and changing business practices all impacting on a building's performance and functionality over its lifecycle. Value-added and opportunistic investing is fundamental to the functioning of the real estate market, as both restore wasting or obsolete assets back to core assets.

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The difference between value-added and opportunistic investing became blurred during the boom, with some opportunistic managers branding their strategies value-added as they lowered return expectations, but not their risk profiles, including leverage levels. Post-crisis, new industry standards have been introduced that ascribe investment style to funds according to prescribed risk criteria rather than return targets.

In practice, value-added and opportunistic strategies are readily distinguishable by the degree and number of risks that are undertaken within any one asset strategy. In short, opportunistic strategies veer more toward the reincarnation of assets, often involving significant redevelopment, distressed real estate (including corporate acquisitions), asset stripping and, in the current market, distressed debt. In contrast, value-added investing focuses on risk-limited strategies that simply recycle real estate by restoring and extending income profiles, thereby generating capital value appreciation.

Does Value-Added Investing Offer an Alternative to Value Erosion?

Core investment strategies place a strong premium value on minimising income risk. However, accepting value erosion for income security is not necessarily the lowest-risk approach. If strategies adopted during the boom overemphasized absolute returns at the cost of understanding risk, strategies over the downturn are arguably overstating and overpricing risks and sacrificing returns. In the strongest Nordic markets, demand and supply dynamics suggest that value-added investing may deliver stronger risk-adjusted returns than core for a number of inter-related reasons:

1. Low supply response diminishes downside risk.

The dynamics of demand and supply have greatly lowered the downside risk of cyclical timing associated with the execution of value-added strategies. At the onset of the financial crisis, the then late-recovery Nordic markets were only shifting into their growth cycle. As a result, the supply response was only beginning to reawaken and, as the global downturn ensued, there was little supply overhang. This resulted in a relatively mild and short-lived rental decline in the office markets of Oslo, Stockholm and Helsinki. Together with stronger economic growth within these export-led economies, this enabled these markets to shift quickly from recovery to growth in the aftermath of the global financial crisis.

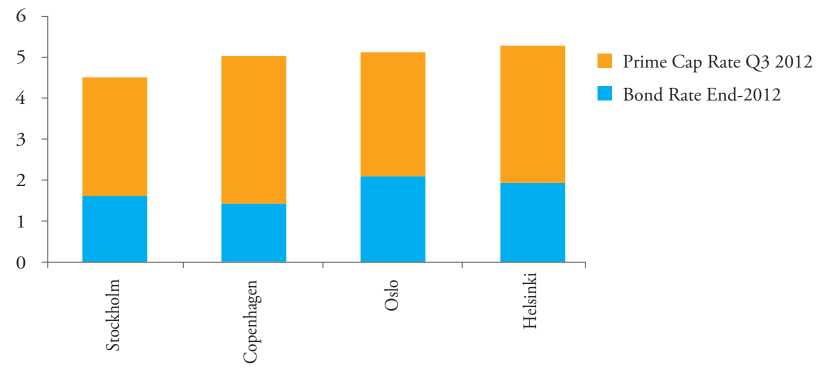
Despite this, a combination of heightened risk aversion, banking illiquidity and subsequently bank balance-sheet recapitalising impacted—and continues to impact—on the availability and cost of finance. This has ensured that the supply pipeline remains constrained, with very low levels of speculative development. Demand continues to outstrip supply in these markets, with low vacancy rates across the Nordics. In Stockholm and Oslo, availability is well below its historical trend. Currently, banks are focused on increasing their capital reserves in an effort to meet the new banking regulations enshrined in Basel III. With real estate lending carrying a high risk weighting (and therefore capital charge), real estate development finance is expected to remain scarce into the medium term.

Given continued economic growth in the Nordics over the same period, this extends the growth phase of the real estate cycle, as it impedes oversupply. Cyclical timing is the major risk taken within value-added investing. Specifically, the risk is that the real estate cycle shifts into its post-growth phase earlier than anticipated and that rental decline ensues before the final execution of the asset strategy. The removal of any oversupply response into the medium term effectively de-risks cyclical timing for value-added investing, previously its greatest risk.

2. Market pricing protects against capital value erosion.

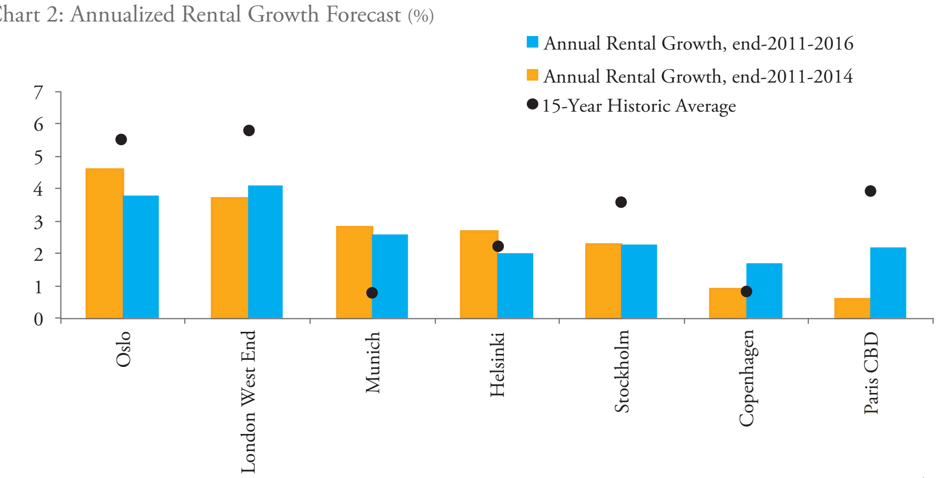
While investor appetite for prime has compressed cap rates, spreads between prime and market average yields remain attractive in most markets *(see Chart 5)*. This reflects the very narrow focus of capital on prime, income-secure assets. It is worth noting that the IPD Index used as a proxy for market yields in the analysis is heavily skewed by the

Chart 1: Bond and Real Estate Cap Rate Spread (%)



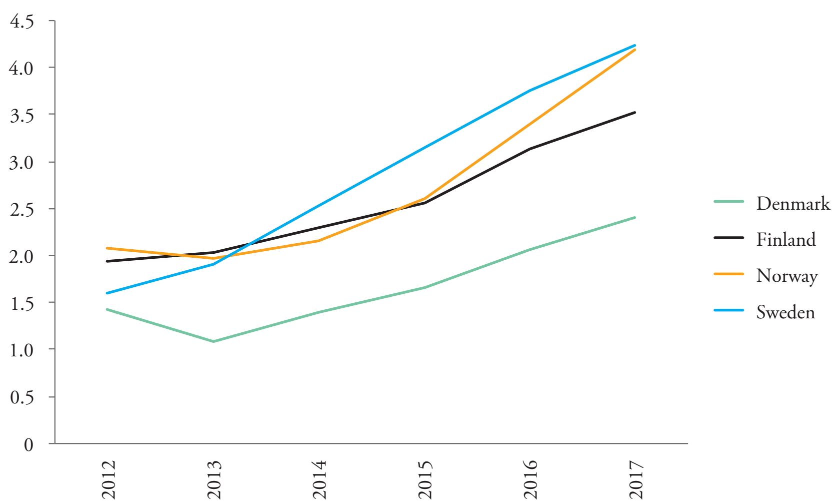
Source: CBRE, 2012

Chart 2: Annualized Rental Growth Forecast (%)



Sources: Genesta 2012; IPF, November 2012

Chart 3: Expected Bond Rate Movements, 2011-2017f (%)



Sources: Genesta, 2012

> "OCCUPIERS REMAIN FOCUSED ON MANAGING THEIR COST BASE"

high weighting of prime within the basket of assets comprising the Nordic indices.

Yields for good-quality assets in strong sub-markets remain elevated—for example, good-quality assets in the Stockholm sub-markets of Solna and Sundbyberg command yields in excess of 6%. They are substantially higher for good-quality assets with weak leasing profiles that could be readily restored with appropriate value-added asset management strategies. This mispricing mitigates any impact from the expected rise in bond rates mid-term. Indeed, given rental expectations, yield compression is anticipated.

3. Market rental growth is expected to outperform prime.

Historically, prime rental growth is considerably more volatile than average rental growth (again, we use IPD indices as a proxy for the market average, and their skew toward prime is likely to overstate market volatility). ***(See Chart 6).*** This lower downside risk for non-prime assets reduces exposure to rental decline. While prime rental growth has provided a stronger upside historically, this has been limited to a narrow segment of prime. Moreover, changing demand dynamics in the current market suggest that the spike in prime rents is unlikely to transpire during this cycle.

Since the market turning point in Oslo, Stockholm and Helsinki, prime office rental growth has pushed rents to levels approaching their previous market peak. Despite strong occupier demand and the scarcity of prime space, the pace of prime rental growth has stabilized. This reflects occupier caution amid wider European economic turmoil and fragile business confidence. Occupiers remain focused on managing their cost base.

Indeed, over 2012 a number of large financial institutions in Stockholm took the decision that at lease end they will reduce their cost base and relocate to sub-markets offering lower-cost, but more functional, modern space. The large amount of space vacated further reduces pressure on prime rents. As a result, the traditional spike in super-prime rents in Oslo and Stockholm is less evident in this cycle. It has been replaced by a wider distribution of rental growth that includes strong, but non-prime locations and sub-markets.

Indeed, the level of affordability offered in the strongest sub-markets resulted in substantially stronger rates of growth over 2012 than those achieved in the CBD. Thus, good-quality, non-prime assets are also set to benefit from stronger income growth. This further underpins the contention of the duality of market mispricing; core, prime assets are overpriced and good-quality assets in non-prime locations are underpriced.

Risk Control and Value-Added Strategies

In the current risk-averse market, there are two principal asset management strategies employed to deliver value-added returns; tenant engineering and asset repositioning. Both strategies are focused on rebuilding the income profile of assets and, in turn, the generation of capital appreciation as the yield moves inward to reflect the asset's improved risk profile. They differ in the components of their risk exposure.

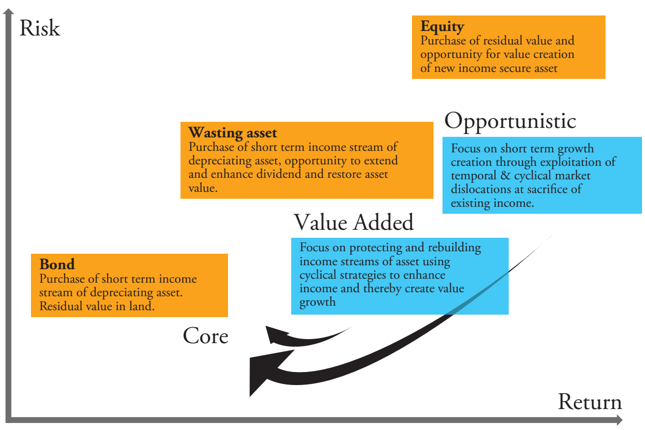
Tenant engineering is relevant to good-quality assets in good locations that have weak leasing profiles—for example, structurally sound assets in need of basic refurbishment, characterized by increasing vacancy and poor-quality tenant covenants, approaching lease expiry. Risk exposure is entirely centered around leasing risk and can be managed by staging the refurbishment and leasing program to reduce the proportion of income exposed at any one point in time.

Asset repositioning is more relevant to ageing assets, with weak leasing profiles, in strong locations. Risk exposure is predominantly centered around building quality, requiring substantive refurbishment and/or redevelopment work to reconfigure and/or extend the leasable and communal space. Pre-lets are used to mitigate leasing risk.

The relevance of these value-added strategies varies across the Nordic markets. In the context of lower risk appetite, opportunities are strongest in Sweden and Norway, given their greater economic stability, low investment market risks and stronger risk-adjusted real estate prospects. In Finland, moderately higher vacancy rates and sub-market supply risk increases leasing risk and limits the execution of such strategies to quite strong locations.

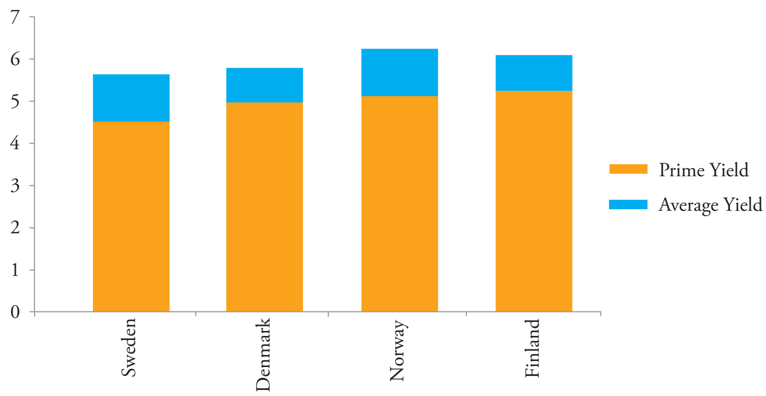
However, with institutional real estate owners focusing on traditional property management, strong opportunities exist to release latent value through effective asset management strategies including tenant engineering and asset repositioning. There are signals that the real estate market in Denmark is entering the early recovery phase of the cycle. As this gains traction, stronger opportunities will emerge as occupier demand strengthens, enabling the execution of value-added asset management strategies in strong, but mispriced locations.

Chart 4: The Real Estate Investment Lifecycle



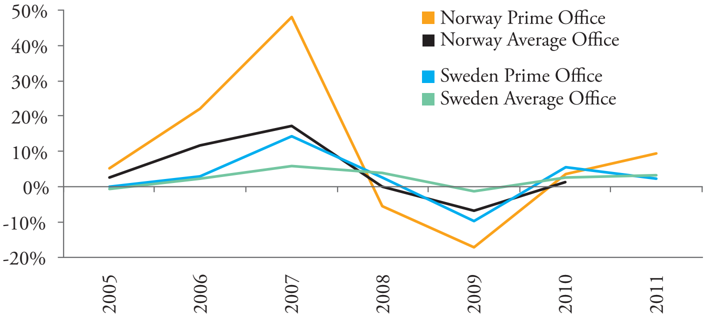
Source: Genesta 2012

Chart 5: Spread between Prime Yields and Average IPD Yields (%)



Sources: CBRE, Q3 2012; IPD Annual Index, 2012

Chart 6: Rental Value Growth, 2004-2011



Sources: CBRE, IPD indices 2012

THE GROWTH OF E-TAILING

RETAIL OWNERS MUST EMBRACE A MULTI-CHANNEL WORLD

During the late 1990s, the emergence of e-tailing led to prophecies that heralded the imminent death of the High Street. By the time the dot-com bubble had burst at the turn of the 21st Century, these prophecies remained unfounded. However, the wisdom of Bill Gates—who stated during that time that "we always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten"—has proved more far-sighted. Over the past decade, the Internet has exploded into a powerful and all-pervasive political, economic and social force. Within the retail landscape, such structural change is shifting the role of both retailers and real estate owners, presenting both challenges and opportunities.

The Growth of On-Line Sales

Simplistic analysis of the impact of on-line retailing tends to focus on the volume of on-line sales growth in isolation. At the European aggregate, such growth has accelerated at a faster rate than the volume of overall retail sales ***(see Chart 1)***. However, such growth is uneven across the region. In Denmark, for example, the volume of on-line retail sales doubled over the period 2003 to 2011, while retail sales overall contracted by 4%. The rate of on-line sales growth is also stronger than for overall retail sales in Finland, Norway, Sweden and the United Kingdom ***(see Chart 2)***. In contrast, on-line sales growth contracted at a faster rate in Spain and Germany than overall retail sales, and lagged overall retail sales growth in France.

Unsurprisingly, European on-line sales are strongest in those markets that have the highest penetration rates of connectivity, including the United Kingdom and the Nordic markets ***(see Chart 3)***. However, it is worth noting that, while Internet usage and purchasing activity remains well below the EU average, the rate of growth in both has been fastest in Spain over recent years ***(see Chart 4)***. Moreover, survey evidence suggests that, while the proportion of the population transacting on-line in Italy and Spain is low, the basket size of those that are making on-line purchases is high relatively ***(see Chart 5)***.

> "UNSURPRISINGLY, EUROPEAN ON-LINE SALES ARE STRONGEST IN THOSE MARKETS THAT HAVE THE HIGHEST PENETRATION RATES OF CONNECTIVITY"

While the volume of on-line retail sales has accelerated sharply since 2000, it remains a low proportion of overall retail sales. Again, there is strong variation across the European region. At over 10%, on-line retail in the United Kingdom accounts for the largest market share of retail sales, with the market share of on-line sales in southern Europe estimated at being less than 2%. Representing overall retail sales, including travel, such data is likely to represent an overestimation of the on-line market share of comparison goods sales. Indeed, there is considerable variation across retail sectors. On-line sales have the greatest market share for more commodity shaped items such as white goods, electrical items, technology, music and books. Indeed, for software, music and, increasingly, books, the digital era has transformed the product to a digital download and is leading to a rapid change in the structure of the software, music and publishing industries. However, having a larger total market share, the proportion of the population that has purchased clothing on-line is high across all countries relative to other comparison goods segments ***(see Charts 6 and 7)***. It is strongest in the United Kingdom, Denmark and the Nordics. Nevertheless, the market share of on-line sales within the clothing segment is expected to be less than 5% in even the United Kingdom, yet the impact of Internet retailing on the industry has been profound.

> "IT MATTERS LITTLE WHETHER A CONSUMER SHOPS ON-LINE AND BUYS IN-STORE, OR SHOPS IN-STORE AND BUYS ON-LINE. WHAT COUNTS IS THAT THE SALE OCCURS"

A Multi-Channel World

This is because the impact of on-line retailing is much more complex than whether a sale occurs in a physical or virtual store. With a number of notable exceptions, including the global giant Amazon, the Internet is dominated by the same retailers that control physical retail locations. The most successful are those that adopt a multi-channel approach, understanding that consumer behavior is symbiotic in their use and patronage of real and virtual stores. It matters little whether a consumer shops on-line and buys in-store, or shops in-store and buys on-line. What counts is that the sale occurs.

Currently, the importance of the Internet may be relatively minor as measured by point of sale; however, Forester research suggests that almost half of all sales in the United States are already web influenced. From its inception, the Internet enabled price comparison, increasing competitive pricing across

> "THE EMERGENCE AND RAPID ACCELERATION OF SMARTPHONES AND THE MOBILE WEB IS LIKELY TO INCREASE THIS PRESSURE ON PRICING AND CUSTOMER SATISFACTION YET FURTHER"

retailers. Web 2.0 has empowered consumers, facilitating the emergence of peer review, shifting the ownership of brand value from retailer to consumer. At least meeting customer expectations of both product and retailer service levels has become critical.

The emergence and rapid acceleration of smartphones and the mobile web is likely to increase this pressure on pricing and customer satisfaction yet further. Symbiotic consumption is fast being replaced by simultaneous shopping. That is, on-line price comparison and peer review is now occurring in-store. Recent research among smartphone users in the United States indicated that over 50% abandoned a purchase in-store because they found it on-line for a better price, while 34% had read a bad peer review ***(see Chart 8)***.

At the same time, retailers are facing an increasing cost base, including the development of engaging and functional on-line stores, supported by real time on-line and telephone customer services and efficient customer-centric delivery and return logistics. Multi-channel retailers are increasingly using their on-line stores to create communities and dialog with their consumers, using digital mining to market to individuals more specifically.

Given continued pressure on pricing amid rising goods prices, retailers are re-focusing on rationalising store portfolios as a means of managing the cost base. The reach of the Internet enables retailers to reduce the size of the store portfolios required to penetrate the marketplace. At the same time as closing non-performing stores, retailers are strengthening their presence in major retail destinations while demand for more secondary locations has diminished. A case of more space in fewer locations.

While the causes are complex, with online sales one of a number of contributory factors, the death of the secondary High Street is becoming a reality in the United Kingdom, with one in six shops currently vacant. Yet, demand for the Top 50 retail locations and affluent specialty centers remains strong. Such retail environments provide consumers with an experience that transcends transaction activity. In such environments, shopping is not merely a means to an end, but an activity to be enjoyed in and of itself, regardless of the outcome. Retailers are differentiating the role of physical stores to provide consumers with increased customer experience through extending customer services, demonstrating products and hosting events. For example, fashion retailers are providing stylists and hosting fashion shows for new ranges. Household goods retailers are providing

Chart 1: Overall Retail vs On-line Sales Volume Growth for Europe (deflated), 2003-2011 (%)

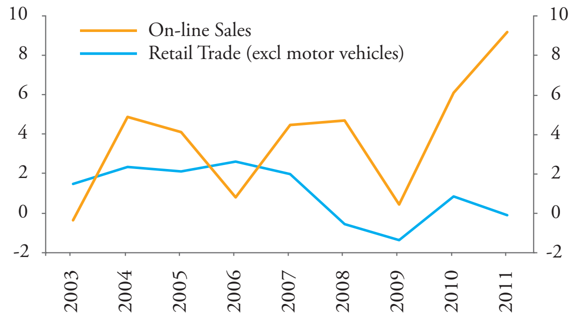


Chart 2: Overall Retail vs On-line Sales Growth, 2003-2011

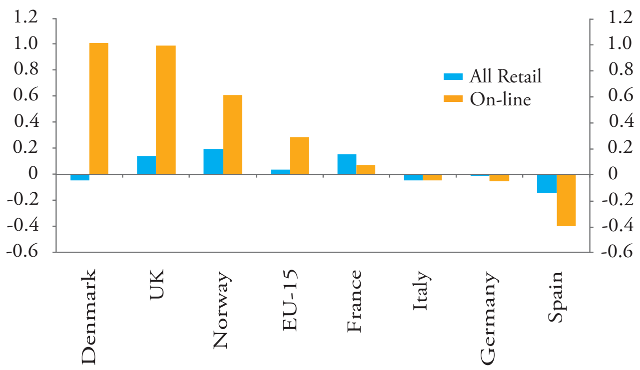


Chart 3: Internet Use (2012) and Purchasing Activity (2011) by Market (%)

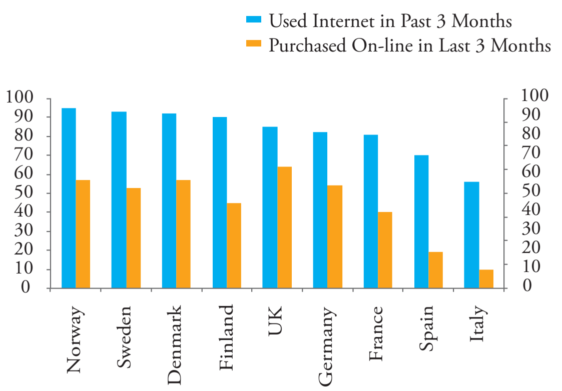
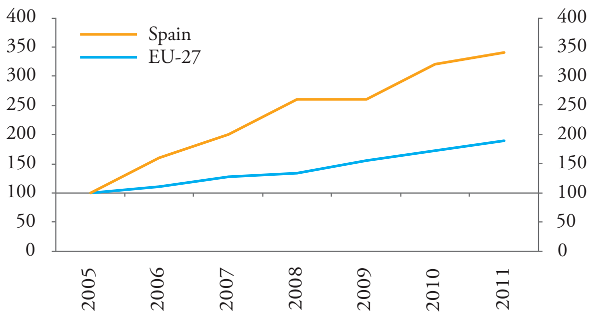


Chart 4: Individuals (ages 16-74) Purchasing On-line in last 3 Months EU-27 vs Spain, 2005-2011, (Index, 2005=100)



Sources: Eurostat, Jan 2012; Kelkoo, 2010; ComScore, July 2011

> "THE REACH OF THE INTERNET ENABLES RETAILERS TO REDUCE THE SIZE OF THE STORE PORTFOLIOS REQUIRED TO PENETRATE THE MARKETPLACE"

design services and DIY retailers have introduced skills courses. Importantly, such activities are not undertaken in competition to their on-line stores, but symbiotically. For example, on-line customers are invited to events in the physical store and incremental sales benefit.

On-line sales, price comparisons and peer review–led market research are expected to continue to increase across Europe amid growing pressure on retailers' business models. Like retailers, the retail real estate market needs to embrace this change and respond imaginatively to capitalize on the opportunities that it presents in order to succeed.

Challenges and Opportunities for Retail Real Estate Owners

There are three principal real estate opportunities that may be exploited from these structural forces shifting the retail landscape. First, the creation and implementation of proactive strategies that harness structural change affecting the role of shopping space with the aim of retaining and extending the target consumer audience. Second, exploration of emerging real estate sectors that result from such structural change. Third, capitalizing on the uncertainty arising from market consolidation and associated mispricing.

Understand and harness structural change

Owners of shopping centers and retail space must anticipate, embrace and respond to retail structural change. Shopping places need to adapt to their changing role within the retail hierarchy to succeed. Given a much enlarged on-line retail experience and competing demands on time, a much greater understanding of what motivates the target consumer audience is required in order to provide an experience that will attract and retain customers. To draw consumers, shopping places will need to be able to deliver a customer experience that is distinct from, and far superior to, that available virtually. Customers will be drawn to a retail destination by the social activities, edutainment and related events that it offers as much as by the retail presence. This transforms the role of shopping places from being a fairly passive physical entity that attracts consumers through a well-designed and managed center accommodating and facilitating a strong tenant mix, to being an active, civic entity that creates a sense of place that is able to draw consumers in isolation from retailers. Retailers will need owners to create the market space at least as much as owners need them. To achieve this, retail and shopping center owners must create a virtual presence and community. For most shopping center owners, the virtual world has remained one dimensional, consisting of a website providing information regarding tenant mix, layout and opening hours. Like retailers, retail

Chart 5: Value of Online Sales

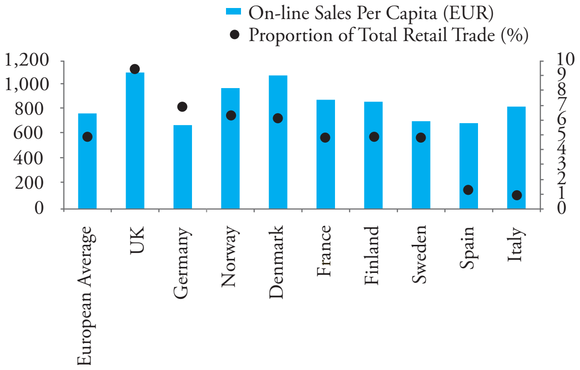


Chart 6: Proportion of All Individuals Purchasing On-line in Last 3 Months by Segment (%)

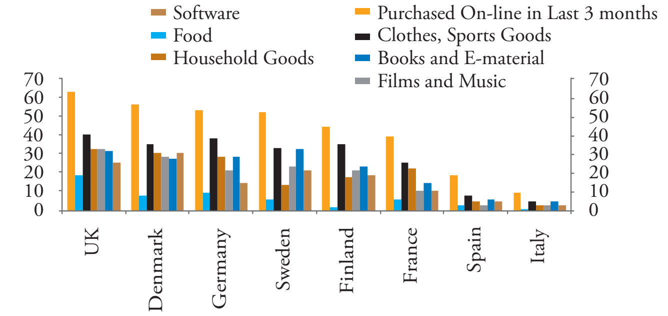


Chart 7: Growth in Proportion of Population Purchasing On-line by Retail Segment, 2003-2011 (multiplier x)

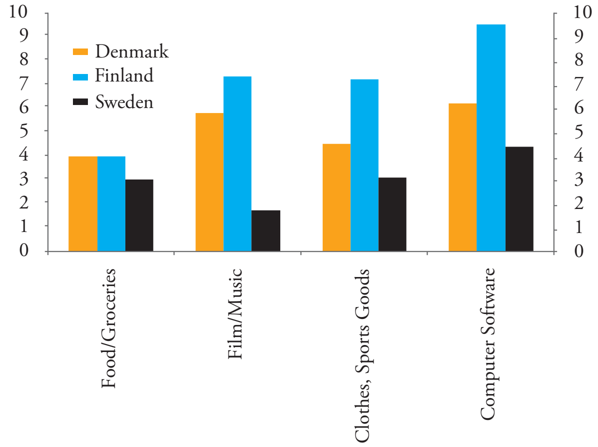
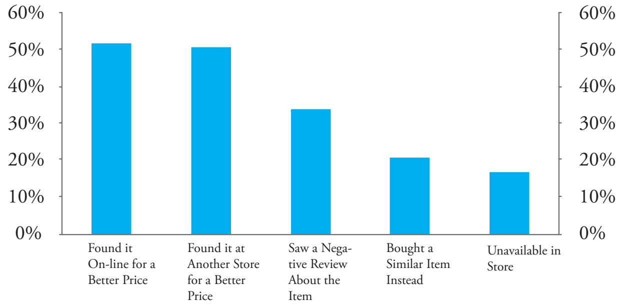


Chart 8: Reason for In-store Purchase Abandonment among US Smartphone Users



Sources: Eurostat, Jan 2012; Kelkoo, 2010; ComScore, July 2011 locations need to build and nurture virtual communities that persist pre- and post-visit. Embracing Web 2.0 and 3.0 are essential for creating meaningful presence, local following, belonging and a sense of loyalty. Within the center, digital tracking provides valuable knowledge of consumers' social, shopping and spending patterns. Given the increase in individually targeted marketing, such analytics provide a source of new revenues.

Emerging retail sectors and services

The growth in on-line retailing is leading to the emergence of a number of new opportunities within new and existing sectors. Efficient, reliable delivery and return logistics are critical to fulfilling on-line customer expectations. The requirement for customers to wait at home for deliveries created a stumbling block for some operations, with delivery time clashing with work hours and other activities. Many retailers have introduced click-and-collect delivery options, with customers who buy on-line able to collect from their local store at their own convenience. Similarly, local stores may be used for returns. In France, a new sector 'Le Drive' has rapidly emerged. Developed by the major hypermarket retailers, on-line consumers buy on-line and collect from drive-through collection points. While initially attached to stores, with goods picked from store, the sector has rapidly developed into stand-alone structures, often attached to warehouses holding retail goods. Importantly, such facilities are zoned as distribution warehousing, not as retail.

There is an opportunity for shopping centers to provide collection points for on-line purchases. In One New Change, a shopping center in the City of London, Amazon has established collection point lockers. The facilitation of an Internet-only retailer with its Achilles' heel of delivery by a shopping center owner may appear uncompetitive business practice. However, the alternative is for Amazon to establish a collection point in isolation and for the center to lose the opportunity for increased footfall, marketing and incremental sales generated by the co-location.

Capitalise on market uncertainty

Market uncertainty is a by-product of structural change and creates mis-pricing opportunities as market participants fail to fully understand the drivers of change, misallocating capital The impact of structural change at the micro-location level must be assessed across the retail hierarchy and, on this basis, classified into buy, sell and hold positions. This should be cross-checked with market pricing to identify arbitrage opportunities across multiple dimensions. First, given the strength of investor demand for the largest centers, strong, local specialty retail locations in affluent micro-locations should be assessed. Second, poorly positioned shopping centers and retail locations within otherwise strong catchment areas that may be readily enhanced by appropriate asset management and marketing activity may be identified.

STRICTER THIN CAP RULES FOR SWEDEN

Up to now, international investors investing into Sweden have often been able to limit their Swedish income tax burden by offsetting their income against expensed interest costs payable on shareholder loans from foreign entities. Often these shareholder loans originated in countries with advantageous tax regimes, and this allowed the investors to reduce their overall tax burden. Compared to many other countries in Europe, the Swedish rules were rather favorable for investors.

From the beginning of 2013, Sweden is implementing thin cap rules, aimed at preventing tax planning involving interest deductions. In general, the new rules will mean the following:

- Earlier thin cap rules, implemented in 2009 and which were quite limited in the scope of their application, will now apply to all intragroup loans, with little or no exception.

- Generally, interest on intragroup loans will not be deductible, subject to two exceptions. Deduction of interest on shareholder loans may be allowed if (i) the recipient of the interest payment is subject to a tax rate of at least 10% and/or (ii) the shareholder loan and corresponding interest payments are deemed to have come about due to "business reasons".

- The first exception, relating to the 10% tax rate of the recipient, will not be applicable if the purpose of the loan is to achieve a significant tax advantage.

- The latter exception, relating to "business reasons", would only be applicable if the lender is domiciled in the European Economic Area, or, under certain circumstances, if the lender is domiciled in a country that has a tax treaty with Sweden.

- There are no grandfathering rules for existing debt, i.e. the rules will apply to loans that were already in place prior to the implementation of the rules in 2013.

So far, there is considerable uncertainty on how the rules will be applied. Hence, for now, it is advisable for investors to be conservative and to assume that their Swedish tax base will increase going forward. ■

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SWEDEN

The Swedish economy has proved reasonably resilient to the great recession. It experienced one of the earliest recoveries from the downturn and has consistently outperformed the European average in terms of economic growth since the onset of the financial crisis *(see Chart 1)*. The strength of Sweden's recovery enabled it to rapidly restore economic wealth. It remains one of the very few European economies whose current GDP level exceeds that of the pre-crisis boom. This outperformance is expected to continue over the forecast horizon, with Sweden maintaining a positive rate of growth over the near term while many of Europe's major economies return to mild recession.

Nevertheless, Sweden's export-led economy is not immune to the weakening of international global demand. The protraction of the sovereign debt crisis in the eurozone and the uncertainty surrounding the fiscal cliff in the United States has eroded business confidence and suspended investment spending in the advanced economies, a key driver of Sweden's export market. This deferral of global investment spending has resulted in the near-term economic outlook being revised downward *(see Chart 2)*. GDP forecasts for the year have been scaled back by some 60 basis points over the course of Q4 2012 to 0.7%.[1]

However, Sweden's relative resilience persists. Benefiting from a current account surplus, it has the ability to enact fiscal policy to stimulate growth in contrast to many countries that continue to implement austerity programs. In the current global economic climate, Sweden has the luxury of employing economic stimulus to provide a cushion against the impact of a short-term decline in export growth. While other economies are shifting into reverse, Sweden is merely shifting down a gear before accelerating as global demand strengthens from H2 2013.

While business confidence is returning as risks recede, leading economic sentiment indicators including the decline of new export orders over Q3 2012 suggest that the lagged impact of this earlier deferral of investment spending will affect actual industrial production activity into Q1 2013 *(see Chart 3)*. Over 2012, marginal increases in the unemployment rate are predominantly driven by a faster expansion of the supply of labor, with employment forecast to continue to edge up by 0.6%. With labor supply continuing to expand as employment growth tapers off, unemployment is forecast to rise to 8.2% over 2013 *(see Chart 4)*.

This decline in output is expected to prove very short-lived, with the volume of exports accelerating from Q2 2013. Stronger Swedish export growth is expected from the spring, supporting GDP growth of 1.3% for 2013. The momentum of growth is expected to build to 2.5% in 2014. Being dependent on external political settlements and no further financial shocks, the risks to growth are clearly to the downside. However, Sweden also boasts an upside.

The Swedish economy benefits from a number of positive factors that provide a cushion against the wider deterioration in global growth. Moreover, they greatly reduce the risk of a self-propelling downward economic spiral afflicting Sweden should the global economy deteriorate. First, Sweden is in the enviable position relative to the majority of its European peers of being able to enact economic stimulus to underpin growth. Fiscal stimulus packages for 2013 amount to an estimated 0.5% to 0.7%[2] of GDP and center on infrastructure and youth unemployment

[1] SEB Economic Research (2012) Nordic Outlook, November 2012, SEB; SEB Economic Research (2012) Nordic Outlook, August 2012, SEB;

[2] Danske Research (2012), Nordic Outllook, October 2012, Danske Bank; SEB (2012) Nordic Outlook, November 2012

projects. Fiscal policy has also loosened and, with low inflationary pressures, the Riksbank has further capacity to lower interest rates *(see Charts 5 and 6)*. This will help sustain disposable incomes and private consumption in the face of weakening labor markets, lower expected wage growth and housing market uncertainty.

Second, the export-led structure of Sweden's economy also hinders the economy from the risk of entering a protracted downward spiral. Sweden has a high proportion of non-eurozone trading partners and provides the potential for partial dislocation from the eurozone's economic woes. Strong inter-regional demand within the Nordics and, in particular, Norway's expansionary economy assists in supporting export volumes. In addition, early indicators of a recovery in both US housing and labor markets point to the potential for an earlier and stronger recovery in demand. Given the importance of US and German export demand to Sweden's economy, this would benefit Sweden both directly and indirectly.

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

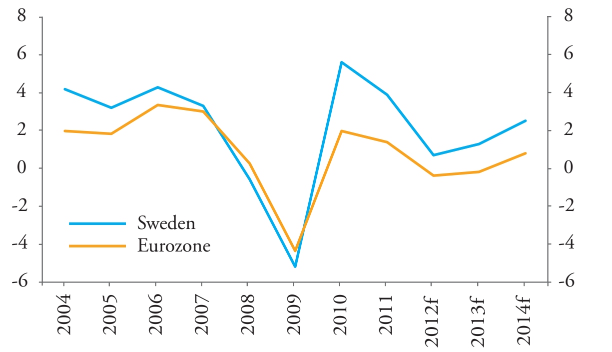


Chart 2: Downgrades to GDP Forecasts from Q3 to Q4 2012 (%)

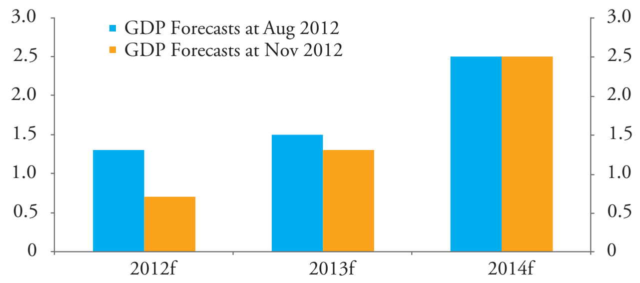


Chart 3: Economic Sentiment and Industrial Confidence Indicators (SA), Dec 2011-Nov 2012 (%)

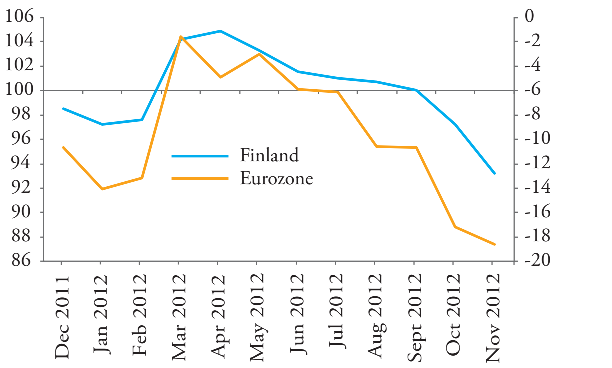


Chart 4: Unemployment Growth, 2004-2014f (%)

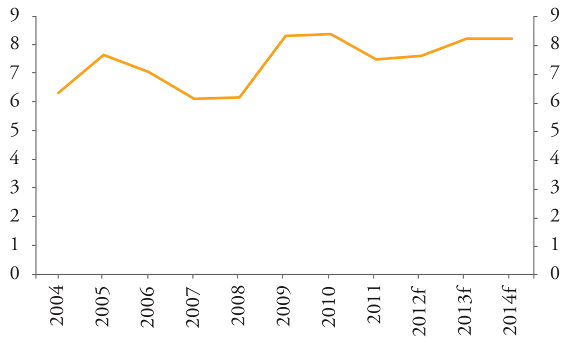


Chart 5: CPI, 2004-2014f (%)

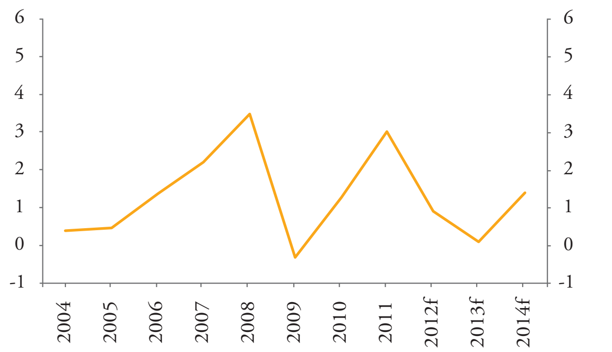
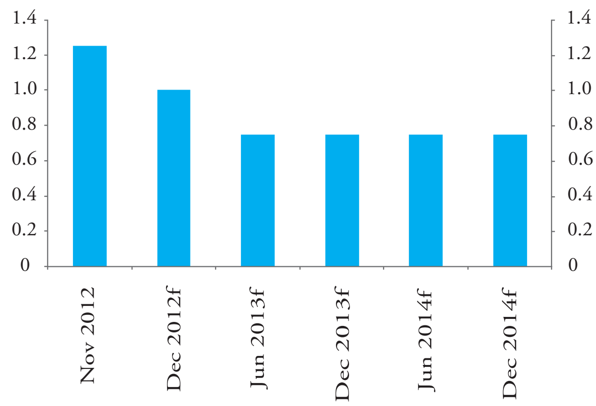


Chart 6: Forecasts of Official Interest Rate Movements (%)



Sources: Eurostat, SEB

FINLAND

The Finnish economy is expected to narrowly avoid contraction over 2012 and will therefore deliver one of the highest rates of GDP growth within the eurozone. Its export-led economy, low debt ratios within both public and private sectors, and limited direct exposure to sovereign debt in the peripheral economies of southern Europe continue to assist its relative performance. Having narrowed in 2011, Finland's margin of outperformance over the wider eurozone is expected to increase over the forecast horizon ***(see Chart 1)***.

Of course, the deterioration in global economic prospects and the prolonged risk and uncertainty surrounding the future of the euro have impacted on the export market. Finland's export market is particularly prone to swings in business confidence and investment spending. On an annual basis, export volumes declined by 2.0% in H1 2012[1], with a marked slowdown in the economies of Finland's largest export partners, Germany and Sweden ***(see Charts 2 and 3)***. Finland's economy contracted by 1.1% in Q2 2012 and leading economic sentiment indicators suggest a weak performance in H2 2012 and into Q1 2013. However, Finland continues to benefit from its strong trading relationship with the more expansionary Russian economy. GDP growth is expected to be marginally positive for 2012 on an annualized basis (0.2%). Given its strong exposure to export demand and the strength of the economies of Finland's major export partners, economic growth is forecast to recover quickly over Q2 2013 as investment spending resumes. This will result in GDP growth of 0.8% for 2013, rebounding to 2.0% by the end of 2014[2].

However, the Finnish economy is also grappling with a number of more structural issues, some of which are exacerbated by the most recent deceleration of world demand. Finland's export-dependent economy is highly concentrated in two cyclical sectors, namely, information technology and communications (ICT) and forestry. This exposes the economy to asymmetric cyclical and structural shocks. ICT exports, which account for 75% of production, have reduced as a result of both a cyclical fall in world demand and a decline in Finland's market share of this highly competitive sector. The Finnish ICT sector is highly reliant on the performance of one company, Nokia, which as well as accounting for 20% of all exports represents more than 50% of Finland's stock market capital value. In order to regain competitiveness, the company is undertaking a major restructuring program, resulting in rationalization of the workforce and capital resources. At the same time, the forestry sector is faced with both a cyclical and structural decline in demand for paper and pulp products, particularly in the printing and writing materials segment.

The decline in Finland's major export sectors has turned the current account from surplus to deficit ***(see Chart 4)***. At approximately 1%, the deficit is modest and perceived as readily reversible. Nevertheless, its presence removes the immediate fiscal capacity to employ stimulus policies to support the economy as employed in previous downturns. Rather, the government continues to implement its austerity program to contain its modest fiscal deficit (-0.8%). Such austerity measures are very modest relative to other eurozone economies. However, with

[1] Danske Research (2012), Nordic Outlook, October 2012, Danske Bank;

[2] SEB Economic Research (2012) Nordic Outlook, November 2012, SEB;

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

half the program centered on VAT increases and personal taxation, this has put some upward pressure on inflation.

Until recently, private consumption growth was supportive of economic growth and very strong relative to the European average. The worsening economic outlook and weakening labor market have dampened domestic demand over 2012; however, at 1% the rate of growth continues to outperform that achieved in major European economies. Moreover, it is expected to recover with global demand from H2 2013 as the rate of economic growth resumes, accelerating to 2% over 2014. On this basis, private consumption will undershoot inflation over the forecast horizon to 2014 ***(see Chart 6)***[3].

Chart 1: GDP Growth, 2003-2014f (%)

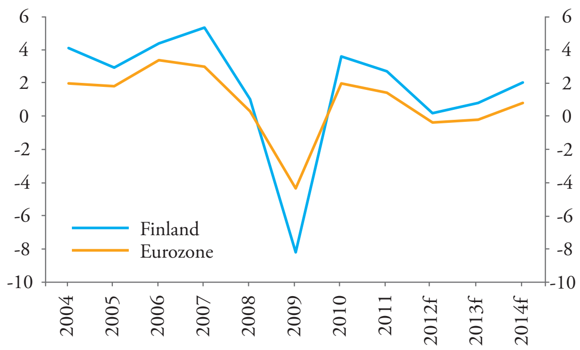


Chart 2: Annualized Volume of Export Growth (%)

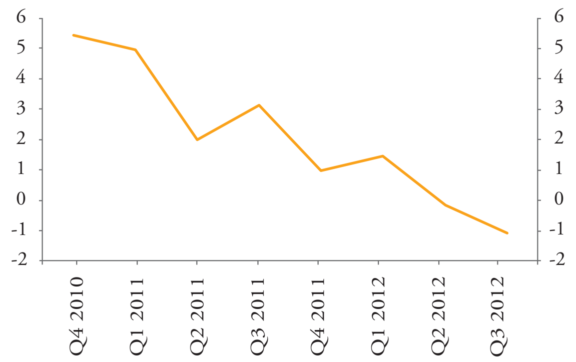


Chart 3: Finland's Major Export Partners (export trade at end-2010, %)

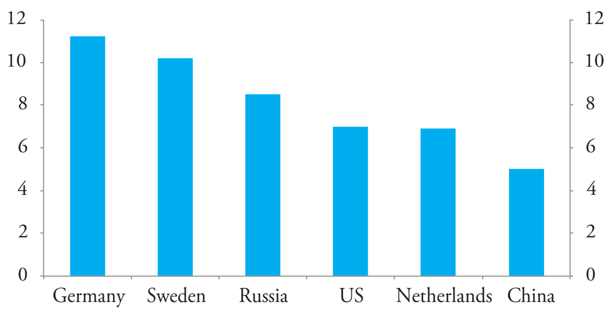


Chart 4: Current Account Balance, 2004-2017f (%)

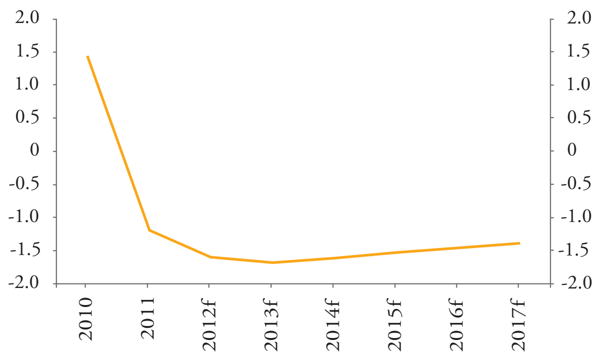


Chart 5: Private Consumption Growth, 2004-2014f (%)

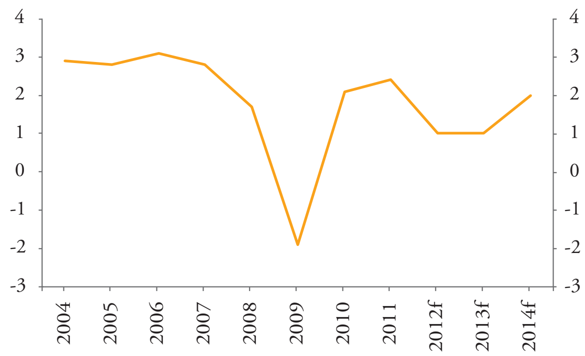
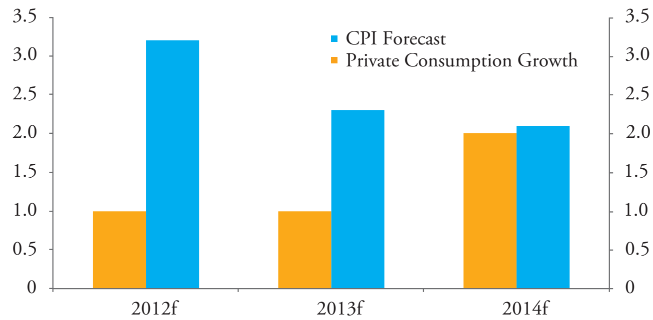


Chart 6: Private Consumption Growth v CPI Forecasts, 2012f-2014f (%)



Sources: Eurostat, SEB, IMF, OECD

NORWAY

Although the rate of growth moderated from buoyant to modest from H1 2012 into H2 2012, economic prospects for Norway remain largely unaffected by the eurozone crisis. High oil investment and a tight labor market have accelerated real wage growth. This has resulted in strong consumption growth and, arguably, a housing market at risk of overheating. A strong krone and low global price impulses have helped to constrain inflation; however, the direction of interest rate movements is upward.

The underlying reasons for the slowdown in the rate of economic activity over Q3 2012 and into Q4 2012 are complex and, being largely unrelated to the slowdown in world demand, are expected to prove transitory. Norwegian economic growth is expected to remain above trend, but to soften to 2.6% in 2013, from 3.4% in 2012[1] ***(see Chart 1)***. This is driven by the strong oil and oil-related industry growth and associated growth in labor, which in turn is contributing to strong house price growth.

Private consumption fell in June 2012, but subsequently recovered and continued its upward trajectory of 1.1% over the third quarter. Private consumption is expected to grow by 3.5% for 2012 on an annualized basis ***(see Chart 2)***. Strong wage growth of at least 4% is expected to continue over the forecast horizon to 2014 ***(see Chart 3)***. Expected interest rate movement will result in household income growth moderating slightly to 3.3% over 2014.

Total export growth slowed over Q3 2012, but followed two quarters of exceptionally strong growth ***(see Chart 4)***. The rate of oil and gas production fell as a result of maintenance and industrial action interruption rather than a slowing of demand. Oil investment growth is expected to slow in 2013, but from an estimated 17% over 2012 to a robust 12% in 2013[2]. Oil-related manufacturing output is set to continue to benefit from the ongoing strength of the petroleum sector's investment cycle. Non-oil related exports are more affected by the slowdown in world demand. However, they surprised on the upside over Q3 2012 following a decline over Q2. Given that a recovery of global demand is not anticipated until at least Q2 2013, growth in this sector is expected to slow over 2013 and to resume in 2014 with world demand.

The combination of undersupply of housing in recent years combined with strong population growth from labor migration has led to a stark supply-demand imbalance in the housing sector. Despite construction activity exceeding that experienced in the previous boom, demand continues to outpace supply. Over 2012, house price growth is expected to achieve 9% and given strong wage growth, low interest rates and ongoing demand, further growth of 7-8% is anticipated in 2014 ***(see Chart 5)***.

Despite strong wage growth, household finances and house price inflation, core inflation remains low (1.1%)[3]. The aggregate data masks a bifurcation in the underlying inflation of the basket of goods being measured. The strength of the krone has led to imported goods being deflationary, masking the upward inflationary trend of the domestic basket of goods and services. Moreover, there are some concerns as to whether the measurement of rents is accurately reflecting market growth[4].

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

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

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

[4] Nordea Markets Research (2012) Economic Outlook Nordics, December 2012, Nordea; SEB Economic Research (2012) Nordic Outlook, November 2012, SEB;

Norges Bank has indicated that interest rates will rise over 2013, with the recent lowering of rates elsewhere moving the expected timing from end-2012 to mid-2013. Given the strength of household finances, the bank is conscious of the need to cool the housing market and consumption. However, with historically low interest rates in the eurozone and the United States, it must also avoid further strengthening of the krone. Thus, modest increases to the official rate are expected over 2013, with sharper increases over 2014 when interest rates are expected to increase more widely across markets ***(see Chart 6)***.

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

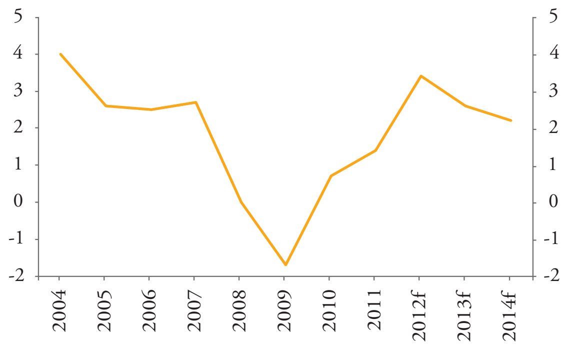


Chart 2: Private Consumption Growth, 2004-2014f (%)

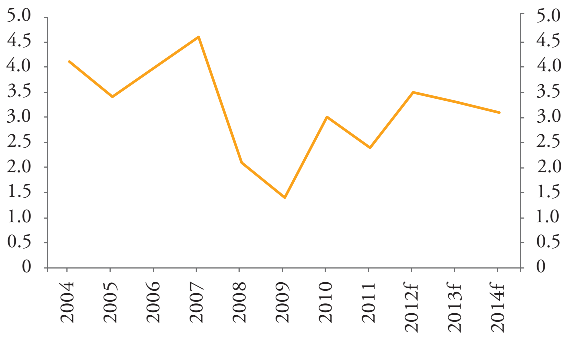


Chart 3: Wage Growth, 2011-2014f (%)

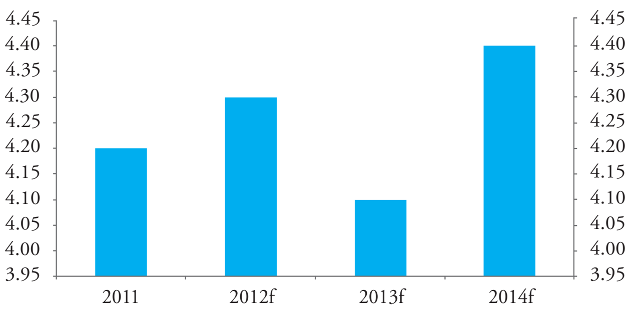


Chart 4: Annualized Total Export Growth (SA) (%)

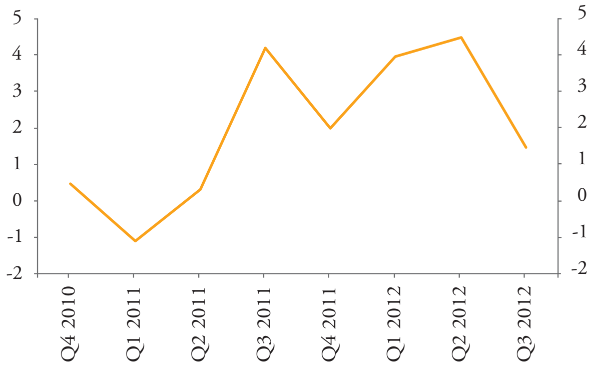


Chart 5: Index of Norwegian House Price Growth (all dwellings)

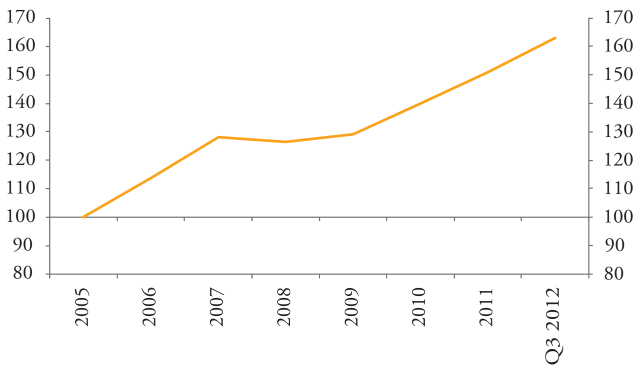
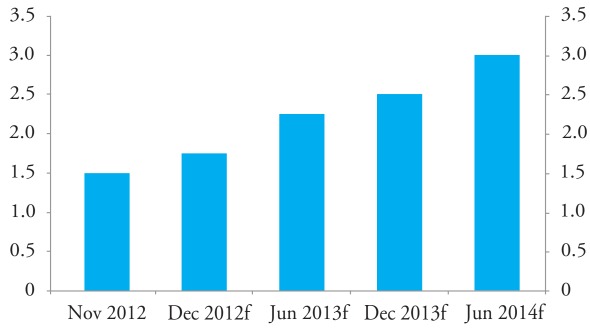


Chart 6: Forecasts of Official Interest Rate Movements



Sources: Eurostat, SEB, OECD, Statistics Norway

DENMARK

Denmark's austerity program is now fully implemented and the government has resumed public spending. Export growth has surprised on the upside and in tandem with weak domestic demand, which has dampened imports, this creates a record high current account surplus in percentage terms. Looking forward, this facilitates a more expansionary fiscal policy, which will assist in restoring private consumption. This will help Denmark's economic recovery gain traction, which has been weighed down to date by weak domestic demand as well as by the wider economic slowdown.

Over H1 2012, GDP growth was zero with positive growth in Q1 2012 being neutralized by a decline in Q2 2012. While marginally positive domestic demand weighed down economic growth, exports proved relatively resilient to the sovereign debt crisis over Q2 and Q3 2012. In part, this was due to the weakening of the euro-pegged krone. As elsewhere, economic sentiment indicators and the general suspension of investment spending over H2 2013 will impact on export growth in the near term. Positively, the acceleration in government spending underlies forecasts for 0.5% GDP growth for 2012, 1.4% over 2013 and, as private consumption recovers, 1.7% over 2014 ***(see Chart 1)***[1]. However, inducing domestic demand is proving difficult.

The austerity program ceased in 2011 and household incomes were bolstered by a windfall gain from returned early retirement contributions. The impact on consumption growth was weaker than anticipated, with consumers preferring to bolster already high savings ratios. Having experienced a downturn since mid-2012, including a weak labor market and a sharp decline in house prices, consumers remain cautious and are focused on re-building wealth. The house price index declined from peak to trough by almost 20%, with even greater value deterioration occurring in Copenhagen and Zealand ***(see Chart 2)***. While the housing market has bottomed out, many homeowners remain in negative equity[2]. Private consumption is expected to gradually recover, but to remain modest throughout the forecast horizon to end-2014. Mirroring wage growth, it will remain negative in real terms ***(see Chart 3)***. Given high savings rates, private consumption has the capacity to surprise on the upside as economic growth resumes and the housing market gradually recovers.

A legacy of the austerity program is public sector consolidation, which has reduced public sector employment by approximately 6,000 jobs over 2012. The private sector held up relatively well, assisted by wage agreements that are negative in real terms. Despite this, leading economic indicators suggest that a fall in new export orders will impact on private sector employment over Q4 2012 and into Q1 2013 ***(see Chart 4)***. In this context, it is unsurprising that consumer confidence has once again fallen well below its long-term trend ***(see Chart 5)***. More positively, the strength of the current account surplus provides for more expansionary fiscal policy.

A range of stimulus policies will assist in delivering stronger growth over

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

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

2013 and 2014 ***(see Chart 6)***. Tax cuts and tax reform will help to stimulate low, but positive private consumption growth. The expected recovery in world demand should result in a revival of export growth from mid-Q2 2013. Domestic capital investment remains cautious given the fragility of the recovery. However, the timing of spending plans may be induced by the government's increased depreciation rates for private sector investment made before end-2013. Planned public infrastructure and social housing projects will further assist in increasing investment and employment levels.

Chart 1: GDP Growth, 2003-2014f (%)

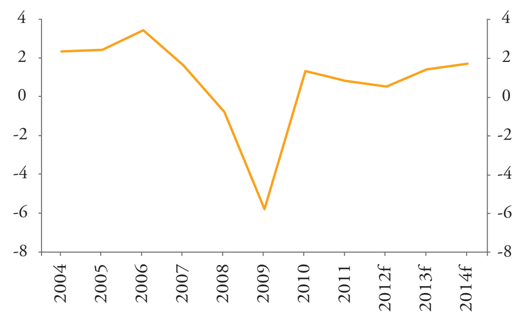


Chart 2: Index of House Price Growth (%)

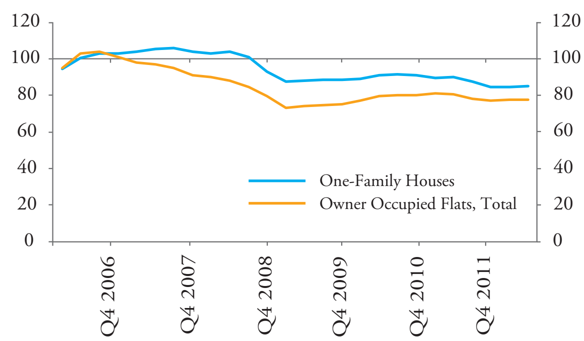


Chart 3: Private Consumption Growth and CPI, 2004-2014f (%)

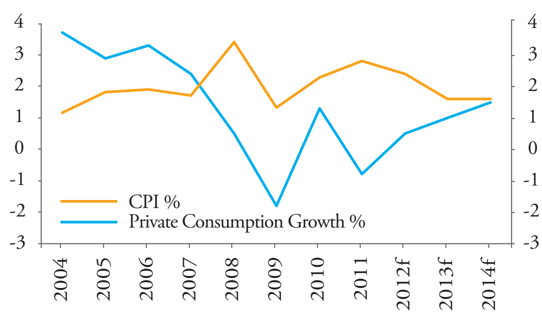


Chart 4: Unemployment Growth, 2004-2014f (%)

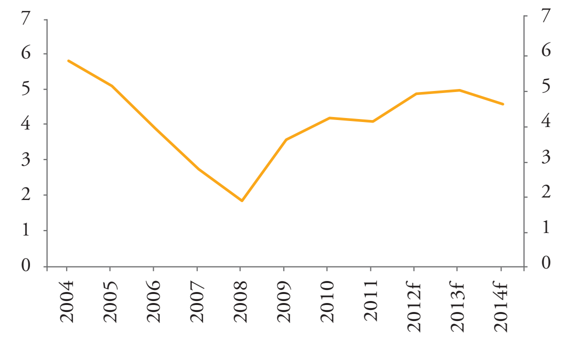


Chart 5: Consumer Confidence (NSA), 2005-Nov 2012 (%)

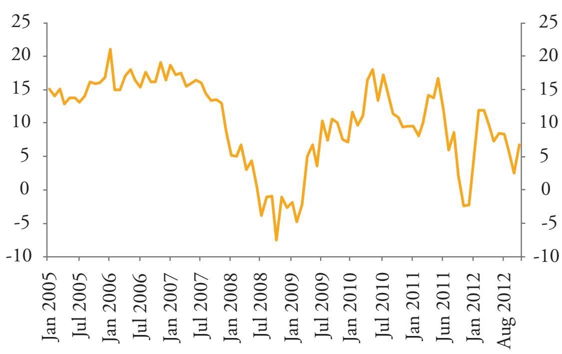
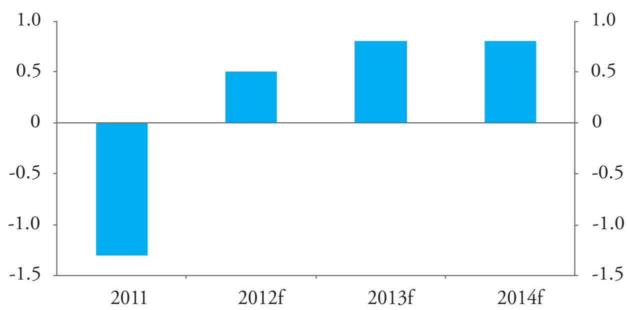


Chart 6: Government Spending Growth, 2011-2014f (%)



Sources: Eurostat, SEB, OECD, Statistics Denmark, IMF

SWEDEN

Sweden has a population of some 9.5 million, which has increased by an average of 0.7% per year over the last 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 in the last five years. In 2011, Sweden had a GDP of USD 538 billion, about USD 57,000 ***per capita.*** In September 2012, the unemployment rate stood at 7.4%, a slight decrease of 0.1% on the December 2011 figure.

The Investment Market

Transaction volume on the Swedish property market during Q3 2012 was significantly lower than during Q3 2011, at SEK 12.7 billion compared to SEK 19.5 billion. Interest from international investors increased during Q3 2012, resulting in a share of transactions of close to 20% compared to just over 10% in Q2 2012. Investments in the three major Swedish cities decreased during Q3 2012 and their proportion of overall transaction volume fell to nearly 70%.

Investment in the retail sector accounted for 20% of overall transaction volume in Q3 2012 compared to just below 10% during the first half of 2012. Major retail transactions during the last quarter included the acquisition of the Burlöv shopping center in Malmö by a consortium led by Grosvenor Fund Management for SEK 1,158 million and Eurocommercial's acquisition of the Eurostop shopping center in Halmstad for SEK 560 million.

At the end of April 2012, it was announced that Folksam had acquired Kungsbrohuset from Jernhusen for about SEK 2.1 billion. The property is located in the western part of Stockholm CBD, also called Västra City. Kungsbrohuset was completed in 2010 with a strong environmental profile, and at the time of acquisition was fully let. Immediately after the deal was made public, it was also announced that Klarabergshuset, owned by Fortin, was up for sale. In July 2012, AFA Fastigheter acquired Klarabergshuset from Fortin Properties. The building covers 22,000 m2, of which approximately 17,000 m2 consists of offices. It was constructed in 1953 and underwent a major renovation and expansion in 2007. The purchase price was approximately SEK 1,450 million, corresponding to almost SEK 66,000 per m2. The adjacent Waterfront Building office property, owned by the German company Meag, is on the market as well. This shows that there is a strong interest in modern office properties in the CBD in general and in Västra City in particular.

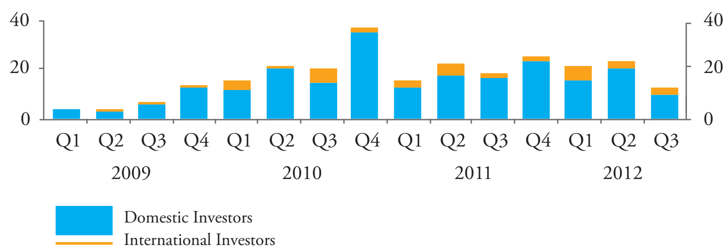
The Office Market

It is estimated that the total office stock in Greater Stockholm amounts to approximately 12.0 million m2. Stockholm CBD is considered to be the most attractive office area and its stock totals about 1.9 million m2. Stockholm Central 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,

List of Transactions - Top 8 - Greater Stockholm Area - Q3 2012

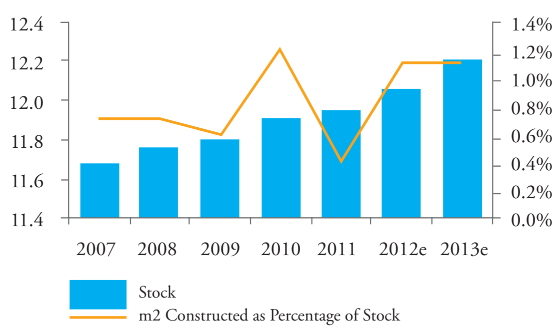
No.	Object	Location	Buyer	Seller	Property Type	Value (SEK million)	Size (m2)	Yield (%)
1.	Klarabergshuset	Stockholm (CBD)	AFA Fastigheter	Fortin Properties (DNB)	Office	~ 1,450	22,000	4.5%
2.	Taktäckaren	Stockholm (Vasastan)	Axfast	KMN Förvaltning	Office	~ 1,100	23,500	N/A
3.	Spårvägen 4	Stockholm (Norrmalm)	Balder	DNB	Office	1,100	23,000	N/A
4.	Bryggmästarvägen 5-7	Stockholm (CBD)	Axfast	Lärarförbundet	Office	~ 475	14,600	N/A
5.	Städet 1	Sollentuna (Häggvik)	Ancore (Ica and Alecta)	Vasakronan	Retail	441	16,000	N/A
6.	Kompassen 1	Sundbyberg (Hallonberger)	Housing Cooperative	Förvaltaren	Residential	254	19,700	N/A
7.	Torkhuset 4	Stockholm (Hammarby Sjöstad)	Catella Real Estate	Areim	Office	225	7,700	N/A
8.	4 Properties	Stockholm (Veddesta Lunda & Årsta)	Brostaden (Castellum)	Profi Fastigheter	Office and Other	154	15,500	~ 7.0%

Transaction Volume Quarterly | Sweden (SEK billion)



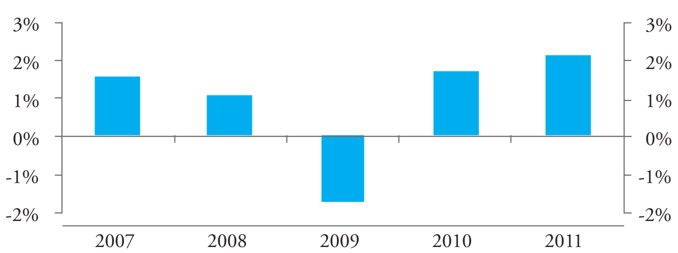
Source: Newsec

Greater Stockholm - Office (M m2)



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby.

New Supply

During 2011, projects totaling just over 40,000 m2 were completed; the low amount of new construction was a result of the financial turmoil experienced during 2008–2009. Construction levels for 2012 were three times that of 2011, close to 130,000 m2, of which nearly 95% is pre-let. The known possible new-production projects in Greater Stockholm add up to nearly 2.5 million m2 of offices. For a large proportion of these plans, start-up lies several years into the future and the proportion of speculative project starts in the next few years is expected to be limited.

The top four office projects in Sweden are being built in Greater Stockholm. In January 2012, Råsta Holding, which is jointly owned by the Municipality of Solna, Fabege and Peab, sold land valued at SEK 630 million and that had been earmarked for the building of the Mall of Scandinavia shopping center to Unibail-Rodamco. Linked to this transaction, Fabege bought building rights for 45,000 m2 of offices from Råsta Holding for SEK 70 million. Construction of Mall of Scandinavia has begun and Fabege has produced a concept for the building rights that it bought. The Scandinavian Office Building, which is the name that Fabege has chosen for the office building, will consist of three blocks with a total of 42,000 m2 of offices. Because the office building will be built on top of the southern part of the shopping center, it will not be ready before fall 2015. With three years left to completion, no lettings have yet been announced. Other projects are Skanska's Lustgården, NCC's Torsplan and Fabege's Uarda 1. No lettings in these projects were made in the third quarter of 2012. Current lettings are just over 90% in the Skanska and Fabege projects, while NCC has let just under half of its office space.

On 1 September 2012, Vattenfall moved into its new headquarters, located just north of Stockholm, at Arenastaden in Solna. The property consists of four interconnected buildings that are 8 to 14 storeys high. The 2,000 or so employees who are moving to Arenastaden have now worked in offices in three different locations; Sturegatan in Stockholm CBD, Råcksta in the Municipality of Solna, and in the city center of the Municipality of Sundbyberg.

The Occupier Market

Rental levels in Stockholm CBD increased slightly in Q3 2012, and are now estimated at SEK 4,500 per m2, an increase of 3% since Q3 2011. This rental level is expected to persist for the last quarter of 2012 and the first quarter of 2013. The vacancy rate in the CBD is expected to remain stable at around 4% up to the end of 2013. The Inner City has become an interesting alternative to the CBD, where rents are at a historically high level. The Inner City vacancy rate remained stable at 7% during Q3 2012. Inner City rents remained stable as well and are now estimated at SEK 2,700 per m2.

The situation on the Stockholm rental market is now more or less split into two. Attractive premises in Inner City locations in general and in the CBD in particular are in short supply and disappear rapidly from the market. Property owners hold the advantage in negotiations with tenants. But in less attractive submarkets and for office premises in unmodernized properties, rent discounts and contributions toward moving costs are becoming ever more common during relocation and renegotiation.

List of Office Projects - Top 5 - Sweden - Q3 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

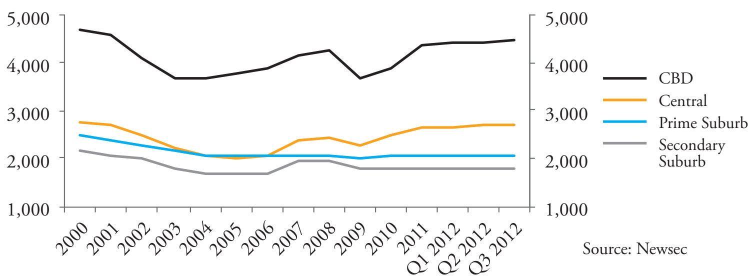
List of Retail Projects - Top 5 - Sweden - Q3 2012

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.	Emporia	Malmö	Steen & Strøm	65,000	2006	2012
3.	Torp Retail Area	Uddevalla	Ikano/IKEA/Steen & Strøm	40,000	2010	2013
4.	IKEA/Ikano Shopping Center	Umeå	Ikano/IKEA	35,000	2012	2014
5.	Norra Backa	Borlänge	Ikano/IKEA	35,000	2011	2013

Between fall 2013 and spring 2016, Swedbank, Nordea, SEB and Försäkringskassan will all either greatly reduce the amount of 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 different times and will be rebuilt and upgraded before they are returned to the market. Several property owners have presented plans about how the areas to be vacated should be improved.

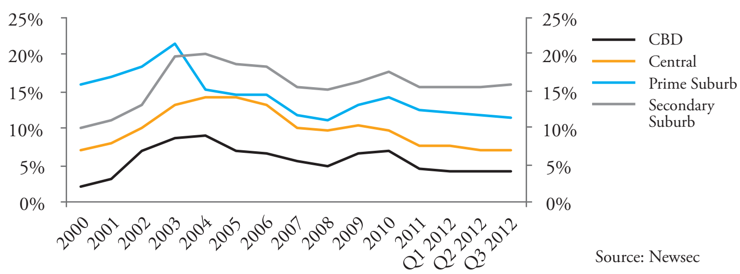
At the beginning of March 2012, it became known that Försäkringskassan was close to a decision to move to parts of Ericsson's old offices on Telefonplan, owned by Vasakronan, which would thus keep Försäkringskassan as a tenant. A 10-year lease with Vasakronan for 24,000 m2 has now been prepared, with entry around the end of 2013. Because the contract is for longer than

Stockholm Office Rent (SEK/m2)



Source: Newsec

Stockholm Office Vacancy



Source: Newsec

six years, approval from the government is required before the parties can sign the contract. This decision was expected to come through during the fourth quarter of 2012. Försäkringskassan currently leases 34,000 m2 in Vasakronan's Uggleborg 12 property in Stockholm CBD. The annual rent at Telefonplan of just over SEK 1,900 per m2 (excluding taxes and excluding heating and cooling), coupled with the smaller premises, will help the company save around SEK 50 million per year compared to its costs today.

The Retail Market

Consumer confidence fell during the summer and fall of 2011 along with the world economy's move from weak positive growth to a far more crisis-ridden situation. Household caution was clearly reflected in retail trade, with a resultant low pace of growth. However, retailing made a strong start to 2012, showing its strongest performance since spring 2011. Even though there were minor fallbacks in April and June 2012, retail sales showed stable growth throughout 2012. In September 2012, retail sales rose by 4.6% compared to the same month in the previous year. These figures are calendar-corrected and at fixed prices.

Retail sales were expected to increase by 2.5% in 2012 according to the latest forecast from HUI, the Swedish Retail and Wholesale Trade Research Institute. Factors that favor a continuing stable future trend are interest rates remaining low and a stable trend in employment. Opposing these is the psychological effect that the euro crisis is having on households.

Domestic consumption is the most important engine in the Swedish economy. According to preliminary figures, household real disposable incomes increased by just over 3% in 2011, compared with a little over 1% in 2010, and are expected to go on rising in 2012–2013 due to a combination of wage rises and low inflation. However, the Consumer Confidence Indicator (CCI) fell by nearly five points in October 2012, from 2.0 in September to -2.9. It was the third consecutive month in which the indicator had dropped and it is now well below the historical average, signaling that households are more pessimistic than normal. That said, the recently initiated reductions in interest rates and a continuing stable labor market are expected to have a sustained positive effect on households during 2012 and 2013.

New Supply

About 500,000 m2 of new retail space is planned in Stockholm up until 2015. The largest project is Mall of Scandinavia next to the new National Arena for football in Solna, which will have 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 new Emporia shopping center, being developed by Steen & Strøm, will have about 65,000 m2 and opened in October 2012.

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 rents increased to SEK 14,750 per m2 during Q3 2012 and were projected to rise to SEK 15,000 per m2 up to the end of 2012.

The most sought-after addresses in central Stockholm lie along Biblioteksgatan, Norrmalmstorg and in Gallerian. There are no major projects currently in hand in these areas. As a result of the growth in population and moderately rising consumption in Stockholm, the demand for retail premises in good locations is high, which is pushing rents in a positive direction. 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.

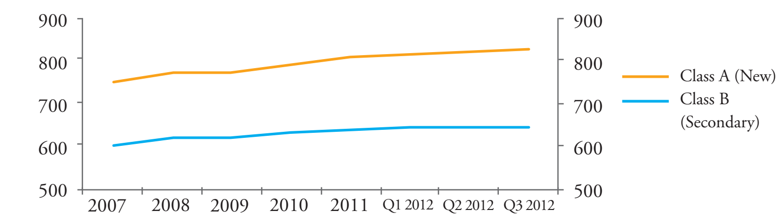
The Logistics Market

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 demographic center of gravity in Sweden is located in a triangle between Stockholm, Gothenburg and Jönköping—and within that triangle are the prime locations for logistics properties. 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

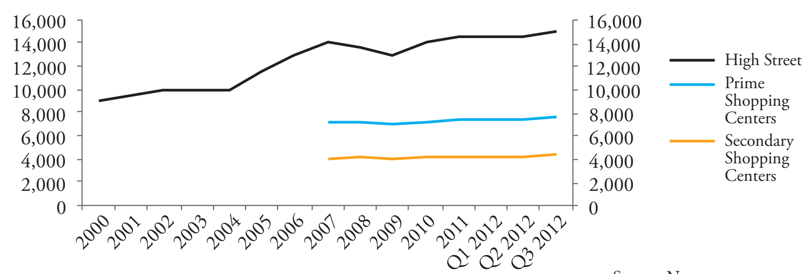
Rent levels for prime logistics properties are currently slightly above SEK 800 per m2 in Stockholm. Tenant demand for good logistics premises with locations connected to logistics clusters and transportation hubs will remain stable due to expectations of resilient domestic growth during 2012–2013. Few speculative developments are ongoing as a result of the weak industrial market. This has lead to a decreasing supply of vacant logistics space.

Stockholm Logistics Rent (SEK/m2)



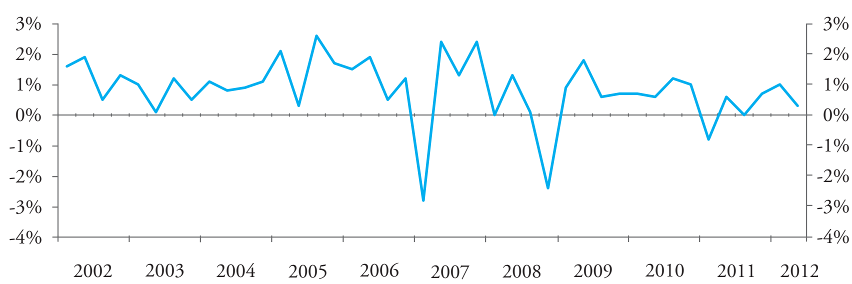
Source: Newsec

Stockholm Retail Rent (SEK/m2)



Source: Newsec

Retail Trade Turnover | Sweden (Percentage change on previous period)



Source: Eurostat

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. In 2011, the population grew by close to 26,000, the largest annual increase since 1991. 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, around USD 49,000 *per capita*. The labor market showed positive signs during 2011 and the first half of 2012, although it weakened slightly during the third quarter of 2012. The unemployment rate in September 2012 was 7.1%, an increase of 0.2% since September 2011.

The Investment Market

Comparing the first half of 2012 with the same period of 2011, transaction volume was stable—EUR 1,080 million compared to EUR 980 million. Also, when comparing the third quarter of 2012 to the latest three quarters, no significant changes are noticed—EUR 500 million compared to an average of EUR 530 million. The transaction market is continuing to be sluggish compared to the years before the financial crisis but throughout 2012 international investors were active in the Finnish property market. During the third quarter of 2012, investments made by international investors increased further.

In the third quarter of 2012, Niam acquired 17 properties in the Helsinki Metropolitan Area (HMA). There are 15 office properties and two retail properties in this portfolio; in total, the portfolio comprises more than 100,000 m2 of lettable area. The two retail properties are located in Vantaa and four of the office buildings are located in Espoo.

Union Investment made an acquisition in the HMA for its UniImmo: Deutschland real estate fund. The Eventes Business Garden is an office development project that is fully prelet on a long lease. It was purchased by the Hamburg-based real estate investment management company for EUR 62 million. The three office buildings will be part of the new headquarters for Outotec.

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 Helsinki, Espoo, Tampere, Vantaa and Turku. About 8.6 million m2, or 75% of the 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 and the remainder is located in Espoo and Vantaa. 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, Keilaniemi and Leppävaara in Espoo, and Aviapolis Business Park in Vantaa.

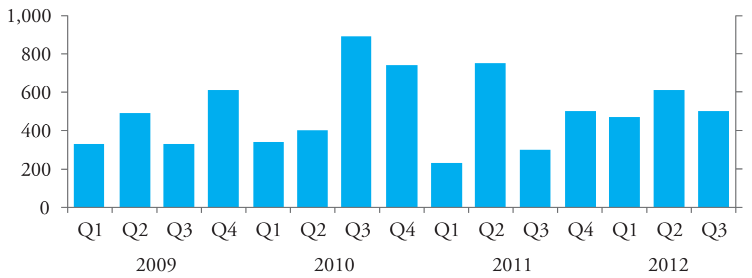
New Supply

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.

List of Transactions - Top 8 - Greater Helsinki Area - Q3 2012

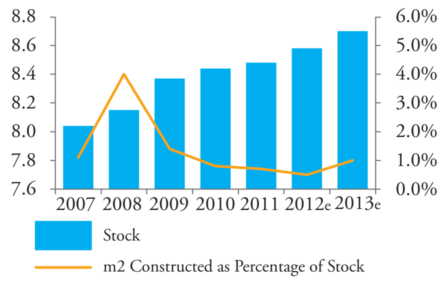
No.	Object	Location	Buyer	Seller	Property Type	Value (EUR million)	Size (m2)	Yield (%)
1.	Portfolio (17 Properties)	Helsinki Metropolitan Area	Niam (Fund V)	Bankruptcy estate and RBS	Office and Retail	~ 175	103,300	N/A
2.	Eventes Business Garden	Espoo (Suburban)	Union Investment	Peab	Office	62	14,100	N/A
3.	Aleksanterinkatu 11	Helsinki (CBD)	Cordea Savills	Nordea	Office	60	10,500	N/A
4.	Industrial Property	Helsinki (Suburban)	JM	N/A	Industrial	16	N/A	N/A
5.	43 Rental Apartments	Helsinki (Suburban)	Auratum	Nordea	Residential	12	N/A	N/A
6.	100 Rental Apartments	Espoo (Leppävaara)	SATO	Auratum	Residential	N/A	3,100	N/A
7.	Two Retail Apartments	Helsinki and Vantaa (Suburban)	Auratum	Soumen Lähikauppa Oy	Retail	N/A	N/A	N/A
8.	62 Rental Apartments	Helsinki (Suburban)	IceCapital Housing Fund	Etera	Residential	N/A	N/A	N/A

Transaction Volume Quarterly | Finland (EUR million)



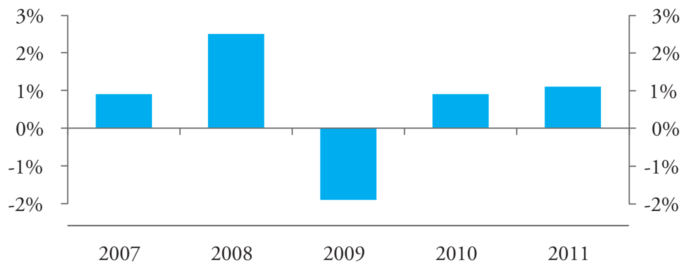
Source: Newsec

Greater Helsinki - Office (M m2)



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

List of Office Projects - Top 5 - Finland - Q3 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Turku Port Center	Turku	Stiftelsen för Åbo Akademi	23,000	2011	2012
2.	Tietotie 11 (Finnair HQ)	Vantaa	Ilmarinen	22,400	2011	2013
3.	KPMG Office Building	Helsinki (Töölönlahti)	Etera	18,500	2012	2013
4.	Business Valley Sola	Espoo	Lujatalo	16,600	2011	2012
5.	New Headquarters for Alma Media	Helsinki (Töölönlahti)	Etera	12,000	2011	2012

List of Retail Projects - Top 5 - Finland - Q3 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.	City Center Expansion	Helsinki	Sponda Oyj	30,000	2011	2013
3.	Hämeenlinna Shopping Center	Hämeenlinna	Keva	30,000	2012	2014
4.	Kannelmäki Retail Extension	Helsinki	HOK-Elanto	16,600	2011	2013
5.	Shopping Center Willa (phase 2)	Hyvinkää	Capman Real Estate	12,000	2012	2012

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 was at about the same level as during the two previous years, approximately 40,000 m2 to 60,000 m2. In 2013, a higher completion rate is expected, about 85,000 m2.

The Helsinki Office Center, to the north of Helsinki CBD, is expanding as its immediate surroundings are currently going through exceptional development as part of the redevelopment of the Töölönlahti area. The new Music Hall was completed in the immediate vicinity of Kiasma museum in late 2011. Etera is currently developing new headquarters buildings in the Töölönlahti area of downtown Helsinki for the media company Alma Media, due for completion in late 2012, and for KPMG, due for completion in 2013. Construction of new headquarters buildings for Ernst & Young, also an Etera project, and for UPM-Kymmene were planned to start in Q4 2012.

The Occupier Market

The decrease in office rents during 2009 was temporary and in 2010–2011 rents increased. At the end of 2012, it is estimated that the CBD prime rent will show a minor increase on a yearly basis but overall it will be fairly stable, and thus in line with the levels of 2011. In Helsinki CBD, the prime rent in the third quarter of 2012 was about EUR 336 per m2, which is unchanged compared to the second quarter. Rents in the most popular business parks are relatively stable, whereas in weaker areas new contracts are occasionally signed at lower levels than those observed in 2011. The prime office yield in Helsinki CBD decreased from 5.4% in the second quarter of 2012 to 5.2% in the third quarter of 2012, caused by an improving market.

The vacancy rate in the HMA increased steadily during 2011, albeit at a slow pace. In Helsinki CBD, the vacancy rate in the third quarter of 2012 was about 5.0%, unchanged compared to the first half of 2012; this indicates that the central area has kept its attractiveness. During 2012, vacancies in Helsinki CBD were expected to show a minor decrease, whereas 2013 is expected to see some increase due to tenant efforts to enhance the usage efficiency of office space and to the completion of new office buildings.

The Retail Market

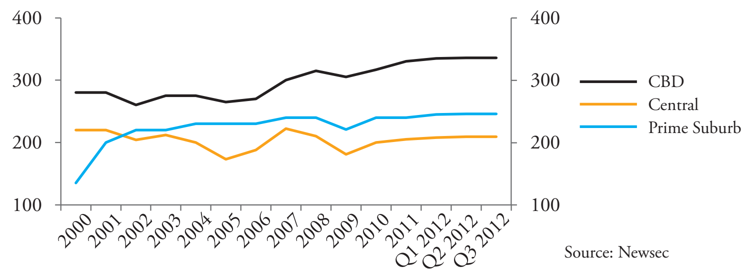
About 50% of the retail stock in the HMA is located in Helsinki, and about 25% each in Espoo and Vantaa. Large stores have for a long time played a substantial role in the Finnish everyday commodity trade. The market share of stores larger than 2,000 m2 is approximately 60-70%.

Retail trade turnover in Finland has historically been quite strong. Combined with a relatively good consumer confidence level, even in economically tough times, and strong private consumption, this has fueled development. However, during fall 2011 the retail trade turnover dropped below 1% due to a psychological effect on households that is clearly and largely related to the eurozone debt crisis. The first quarter of 2012 started off well with a growth level of 3.7%, whereas the second quarter showed signs of weakening, with a retail trade turnover growth level of -1.3%.

New Supply

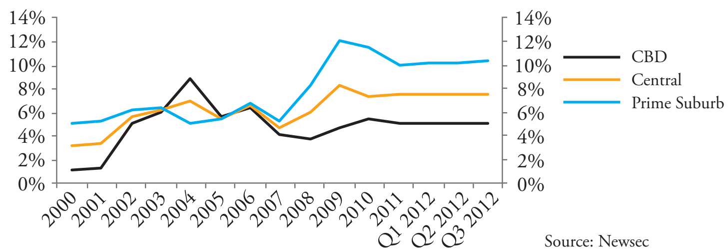
The City Center Expansion is a project in Helsinki CBD. An old building will be remodeled and expanded to provide approximately 30,000 m2 of retail space, which is a quite significant expansion given its location in Helsinki CBD. Another project is Phase 2 of the Willa Shopping Center, which is located between the Citymarket and Prisma supermarkets. It will comprise the bulk of Willa's specialty retail offering, focusing on fashion, leisure, home furnishing, restaurants, cafés, beauty, health and services.

Helsinki Office Rent (EUR/m2)



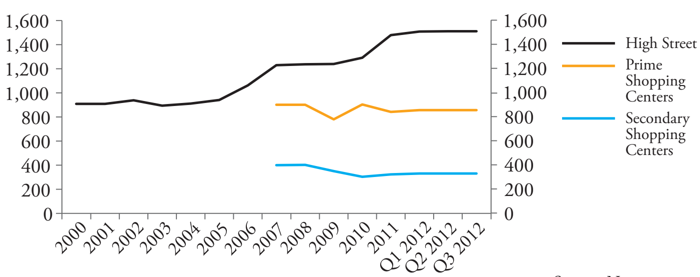
Source: Newsec

Helsinki Office Vacancy



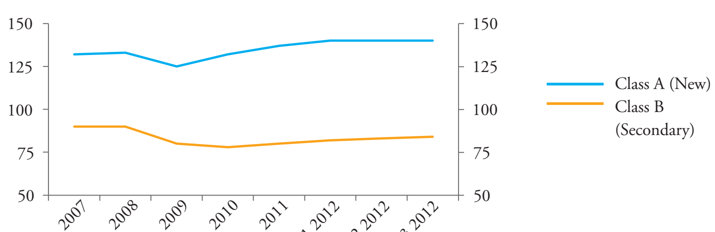
Source: Newsec

Helsinki Retail Rent (EUR/m2)



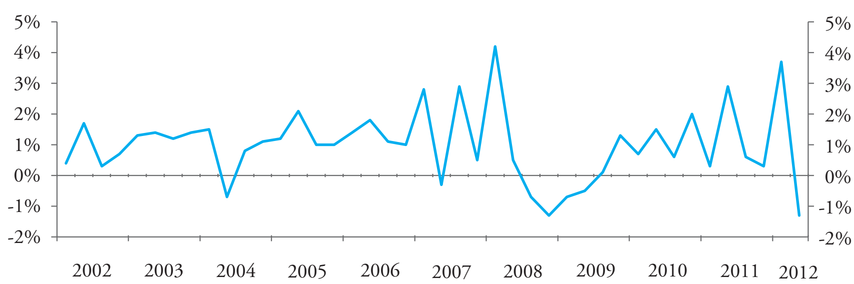
Source: Newsec

Helsinki Logistics Rent (EUR/m2)



Source: Newsec

Retail Trade Turnover | Finland (Percentage change on previous period)



Source: Eurostat

The Occupier Market

In Helsinki, High Street retail rents increased throughout the second half of the 2000s. High Street retail rents rose in 2011 to EUR 1,480 per m2. The increase continued during the first half of 2012. During the third quarter, the prime rent was stable, and today stands at EUR 1,510 per m2. The increase is due to a strong demand for prime locations. In the coming three years, a stable High Street development or minor increase is expected.

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. During 2012, a couple of manufacturing companies moved from Asia back to Finland, which helps to increase the demand for these types of premises.

The Occupier Market

Rental levels for prime logistics properties in Helsinki have experienced a slight increase during recent years. For prime logistics, the slight increase was partly caused by the demand for new logistics properties in the new logistic area of Vuosaari and around the ring III. Currently, class A rents are about EUR 140 per m2, unchanged compared to the two first quarters of 2012. Class A includes only new prime logistic targets. During the years to come, up until 2014, a stable rent development is estimated for prime logistics properties.

NORWAY

Norway has a population of 5.0 million, which has increased by an average of 1.3% per year over the last five years. A percentage growth of this magnitude was last seen 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 2.0% per year over the last 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 July 2012, it stood at 3.0%, a decrease of 0.3% since December 2011.

The Investment Market

After a weak second quarter, transaction volume on the Norwegian property market picked up speed during Q3 2012. Despite the low proportion of invested foreign capital and the restrictive lending policies of the banks, transaction volume ended up at NOK 8.5 billion in Q3 2012 compared to NOK 5.5 billion in Q2 2012.

Investors in the Norwegian market show greatest interest in core office properties and properties with long leases. However, "value-adding" properties, with a potential for rents to increase or development possibilities, have increased in popularity amongst investors. Residential lots and conversion projects are still attractive to investors. Two major residential lots and one conversion project were among the five largest transactions in Q3 2012. Several more are for sale and the trend was expected to continue throughout 2012. However, banks are reluctant to fund investments in the value-add property sector, and this has resulted in easier funding for core properties with long leases.

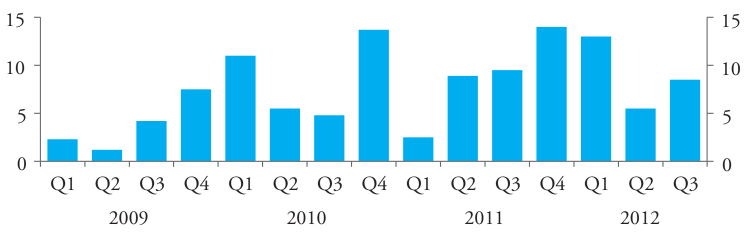
The all-equity funded pension funds have started to sell properties, and the largest transaction during the third quarter of 2012 was proof of that. Stortorvet 7, an office and retail property located in the central part of Oslo, was sold by DNB Liv to Schage, a family-owned property company. The transaction amounted to NOK 980 million and the yield was just above 5%. There are several long leases remaining in Stortorvet 7; the largest office lease, with the Norwegian National Rail Administration, expires in 2019. The property has three basement floors, with potential to develop additional retail surfaces.

Yields on secondary objects have increased due to some re-pricing in this sector. One of these transactions was Haavard Martinsens vei 54/Rommen 5, also known as the Nets Headquarters, which was sold at a yield of 9.75%. The property was sold as a bundled package; the first property is leased by Nets as a solid tenant with a remaining lease commitment of 8.6 years. How-

List of Transactions - Top 5 - Greater Oslo Area - Q3 2012

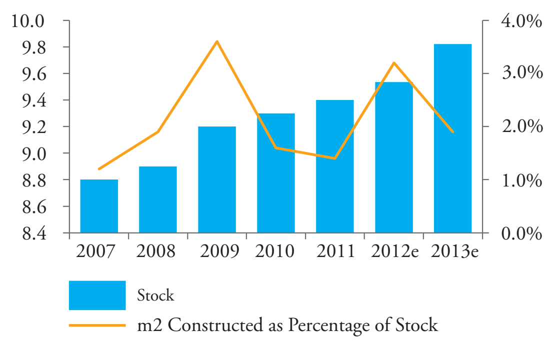
No.	Object	Location	Buyer	Seller	Property Type	Value (NOK million)	Size (m2)	Yield (%)
1.	Stortorvet 7	Oslo (Central)	Schage	DNB Liv	Office and Retail	980	28,500	5.15 %
2.	Ballerud og Avløs Gård	Oslo (Bærum east)	Selvaag	Private Family	Residential lot	600	155,000	N/A
3.	Nets Headquarters	Oslo (Oslo east)	Bruun Eiendom	Nordito Eiendom	Office and other	310	20,500	9.75%
4.	Hasle Linje (50%)	Oslo (Økern)	AF-Gruppen	Hoegh Eiendom	Residential lot	326	N/A	N/A
5.	Uelands Gate 85	Oslo (Voldsløkka)	Profier	N/A	Residential conver.	250	N/A	N/A

Transaction Volume Quarterly | Norway (NOK billion)



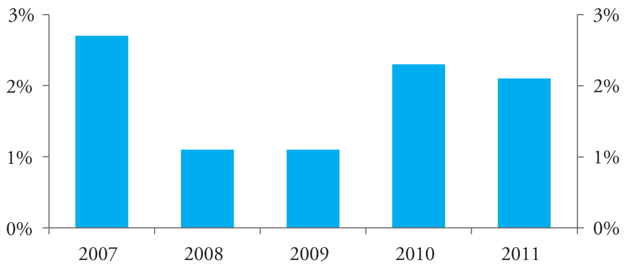
Source: Newsec

Greater Oslo - Office (M m2)



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

ever, a further property in the bundle, with the same tenant, has just three years remaining. The property was for sale at a higher price for some time but was re-priced due to limited interest.

The Office Market

The total office stock in Oslo is approximately 9.4 million m2. The Oslo CBD is relatively small compared to the other Nordic countries and the most attractive and highest-priced office locations are in the Vika and Aker Brygge areas. However, Bjørvika and the area around the Central Station will soon form another part of the CBD when they are developed. 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 2.0% per year on average over the last five years. Compared to Stockholm, where the corresponding figure is between 0.5% and 1.0%, Oslo has seen a substantial amount of new construction completed. Throughout the period of financial turmoil, the net take-up as a percentage of stock in Oslo remained positive, while in both Stockholm and Helsinki it was close to -2.0% in 2009 as a percentage of stock.

Two major office projects were completed during the third quarter of 2012. IT Fornebu, which is developing the former airport area Fornebu in the western part of Oslo, commissioned Skanska to build the new headquarters for Statoil. The contract was for an office building with five contiguous buildings of nine floors. The project comprises a total of about 65,000 m2. Construction began in January 2011 and the project was completed in September 2012.

Oslo S Utvikling AS (OSU) is the developer behind DNB's new headquarters, which will consist of three office buildings with a lettable area of about 80,000 m2. The buildings will be completed from 2012 to 2013 and house 4,200 DNB employees. The new headquarters will be 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 phase consists of 50,000 m2 of offices and throughout the fourth quarter of 2012 about 2,200 DNB employees moved to the new premises.

The Occupier Market

A relatively low amount of office space was constructed in Oslo in 2011 and a substantial amount of the office projects estimated to be completed in 2012 is pre-let. Combined with the fact that companies demand highly space efficient offices in central locations, vacancies declined during 2011 and contributed to an upward pressure on rents. IT and oil related companies have accounted for a large share of take-up; so did a number of governmental agencies whose offices were destroyed in the bombing attack in the summer of 2011. During the third quarter of 2012, the CBD vacancy increased slightly by 0.5% to 4.0%. The vacancy rate in the CBD is expected to increase during 2013 as DNB leaves over 40,000 m2 when it moves to its new headquarters in Bjørvika. The prime office rent in the CBD was stable at NOK 3,300 per m2 during the quarter.

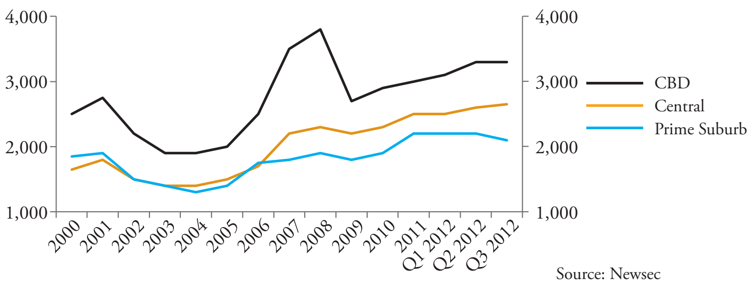
List of Office Projects - Top 5 - Norway - Q3 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	New Headquarters for DNB	Oslo (Bjørvika)	OSU	30,000	2010	2012-2013
2.	New Office for Statnett	Oslo (Nydalen)	Avantor	22,000	2011	2013
3.	New Office for Egmont	Oslo (Nydalen)	Avantor	18,000	2011	2012-2013
4.	New Office for Kongsberggruppen	Oslo (Asker)	Oxer gruppen	18,000	2012	2014
5.	Ullern Panorama	Oslo (Oslo west)	Selvaag	17,000	2012	2014

List of Retail Projects - Top 5 - Norway - Q3 2012

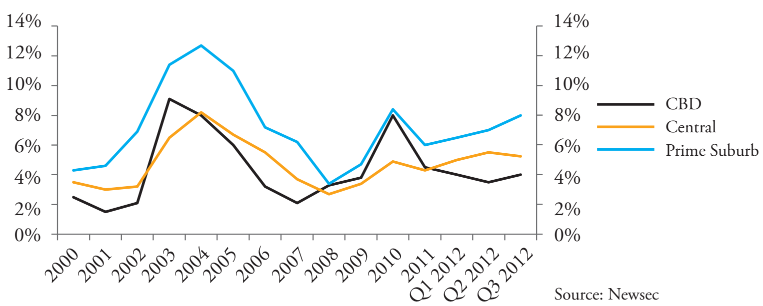
No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Sørlandssenteret	Kristiansand	Olav Thon	73,000	2010	2013
2.	Åsane Senter	Bergen	Steen & Strøm & Nordea Liv	70,000	2010	2017
3.	Økernsenter	Oslo	Steen & Strøm	~ 50,000	2010	2017
4.	Jekta kjøpesenter	Tromsø	Coop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

Oslo Office Rent (NOK/m2)



Source: Newsec

Oslo Office Vacancy



Source: Newsec

Some central submarkets such as Lysaker struggle with high vacancies as companies are attracted by new office projects. The rent spread between offices in older office buildings, that do not meet the requirements of companies, has increased in recent years, and this development is expected to continue.

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 a weaker growth prognosis. Retail trade turnover has increased since, with only minor slumps in 2010 and 2011.

New Supply

In 20 years, the total floor space in Norwegian shopping centers has quadrupled, and today more than one-third of all Norwegian retail trades takes place in shopping centers. Hence, Norway has one of the largest *per capita* levels of retail space in the world. The level of new developments has fallen as a consequence of the relatively saturated market.

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 sized 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, it 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

High Street rents increased by NOK 250 per m2 during the third quarter of 2012. In Oslo, High Street rents are found in boutiques on streets like Karl Johans Gate and Bogstadveien. High Street rents were fairly stable after the peak in 2008 but there was a tangible increase in rent during 2011. Vacancies are close to none in good locations on High Streets and in prime shopping centers. The Norwegian economy is inherently stable, due to the oil sector. This will provide opportunities for continued rent increases during the next few years.

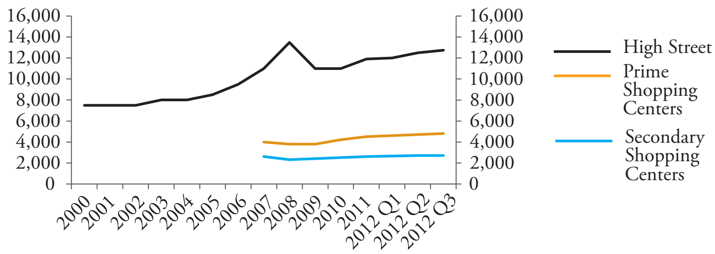
The Logistics Market

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 mainland 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 mainland Europe and the industrial area around Gardermoen Airport, which is focused on national distribution, are the areas currently undergoing development into logistics hubs.

The Occupier Market

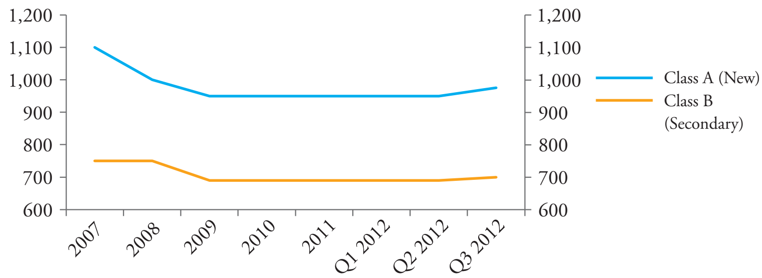
Norway in general and Oslo in particular has a population that is growing rapidly. Permission for development of new industrial and logistics areas

Oslo Retail Rent (NOK/m2)



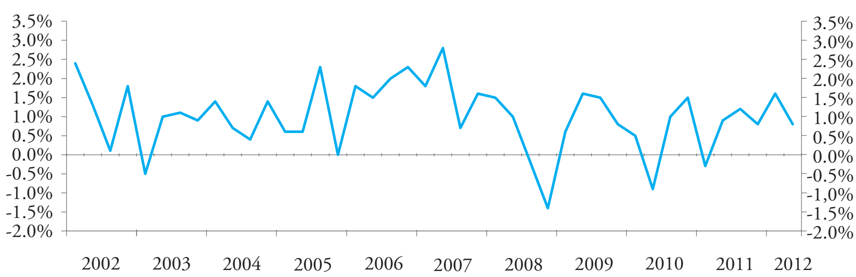
Source: Newsec

Oslo Logistics Rent (NOK/m2)



Source: Newsec

Retail Trade Turnover | Norway (Percentage change on previous period)



Source: Eurostat

within the Greater Oslo region is rare. Policymakers rather prefer residential or office developments. Hence, the demand for class A logistics properties in the proximity of transportation hubs is high, keeping rent levels up.

The cost of logistics accommodation 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 rates during recent years. However, in Q3 2012 logistics rents showed signs of a slight increase.

DENMARK

Denmark has a population of close to 5.6 million, which has increased by an average of 0.5% per year over the last 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 last 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 has not recovered since. It declined slightly from its peak in 2010 but has remained more or less stable over the last three years. The unemployment rate in August 2012 was 6.2%, the same rate as in August 2011.

The Investment Market

Liquidity on the Danish transaction market continued to be low in 2011, compared to the years before the financial turmoil of 2008–2009, with a total volume of DKK 15 billion. At the end of 2010 and the beginning of 2011, there were several large transactions that led to expectations of a market that was in recovery. However, during the second half of 2011, investors became anxious about the eurozone debt crisis and the number of transactions fell back.

Financially strong investors, such as institutional investors and well-consolidated property companies, are still the dominant actors in the market. The debt crisis has negatively affected the banking sector, which has resulted in difficulties for investors in obtaining financing. Transaction volume in the third quarter of 2012 continued along the moderate trend observed in the last two years, and ended up at DKK 4 billion. It is expected 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. However, the supply of these is limited.

In the third quarter of 2012, the PKA and Topdanmark pension funds bought the Udsigten (Margretheholm) residential project from the development company Sjælsø. The different phases of the project are expected to be finished in 2014–2015. The seller has provided the buyers with rental guarantees. The ATP, PFA Pension and PensionDanmark pension funds bought the Århusgadekvarteret office project from NCC Property Development. The office project of two commercial silos is expected to be finished in 2014 and will consist of 14,000 m2, of which 11,500 m2 will be leasable office space. This transaction also features a rental guarantee. The project is the beginning of a large new development scheme north of Copenhagen.

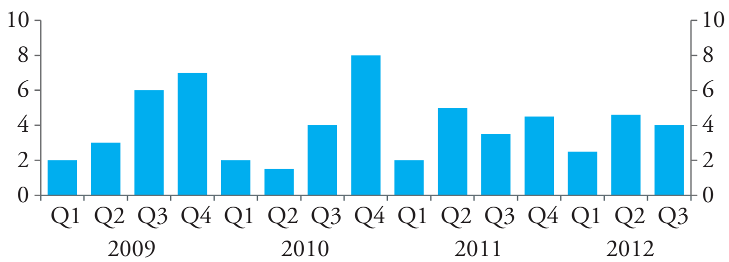
The Office Market

Office properties located in Copenhagen CBD generate the highest rents, with 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

List of Transactions - Top 5 - Greater Copenhagen Area - Q3 2012

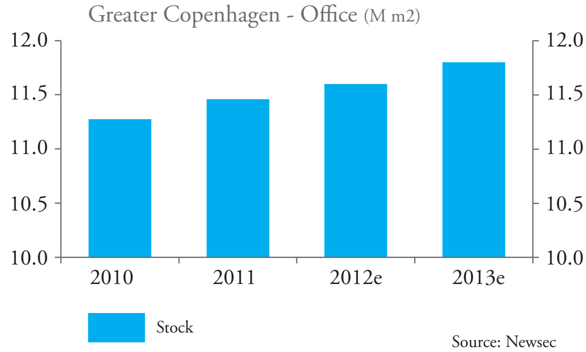
No.	Object	Location	Buyer	Seller	Property Type	Value (DKK million)	Size (m2)	Yield (%)
1.	Udsigten (Margretheholm)	Copenhagen (CBD)	PKA and Topdanmark	Sjælsø	Residential	1,000	45,000	5.00%
2.	Århusgadekvarteret	Copenhagen (Øs-terbro)	"ATP, PFA Pension and PensionDanmark"	NCC	Office	390	14,000	5.00 %
3.	Sølvgade 40	Copenhagen (CBD)	EjendomsSelskabet Norden	DSB	Office	280	25,000	6.00%
4.	Købmagergade 17-19	Copenhagen (CBD)	Meyer Bergman	K/S Købmagerg. 17-19	Retail	250	5,000	5.25%
5.	Østergade 35	Copenhagen (CBD)	Saxo Properties	K/S Østerg. 33-35	Retail	170	1,920	4.90%

Transaction Volume Quarterly | Denmark (DKK billion)



Source: Newsec

Greater Copenhagen - Office (M m2)



Source: Newsec

List of Office Projects - Top 5 - Denmark - Q3 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 - Q3 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

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

The uncertainty regarding the course of the overall economy in the next couple of years will continue to place new construction under pressure. However, the population forecast for Copenhagen is strong—it is expected that the city will see long-term growth that will make new construction attractive.

In Greater Copenhagen, there is only a low amount of new construction. The new-construction level for 2012 was approximately 140,000 m2. There are some big projects in the pipeline, though, and in 2013 the construction level for new offices is expected to be higher, at about 180,000 m2. This should, however, be seen in the context of the very low levels of construction activity between 2008 and 2010 and may be a result of a catching-up effect.

UN City is an office project in a new part of Copenhagen that will be developed during the next 30 years. The property will be the headquarters for the United Nations' northern European division. Another office project in Copenhagen is the new headquarters for Nordea. Nordea did not renew its lease contract for its Christianshavn headquarters, and has now decided to move a large part of its operations to Ørestad. The project is expected to be completed in 2016 and will be located next to DR Byen. Nordea will have an option to expand its commercial space in the future.

Another ongoing office project in Copenhagen is Scala, a landmark building bought by EjendomsSelskabet Norden. The property was deserted for several years and the existing building is being removed to make room for the construction of a 36,000 m2 combined office and retail building. A major part of the building is leased to Gorrissen Federspiel, a Danish corporate law firm.

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 rents rose to DKK 1,600 per m2, the same level as in the third quarter of 2012. Newsec estimates that the rental levels will stay relatively flat in coming years, due to the expected slow growth in the overall economy.

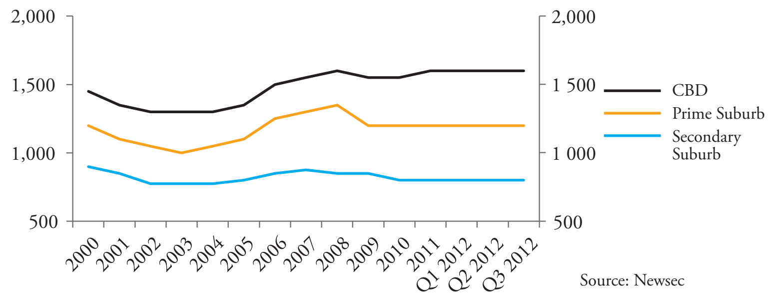
The office vacancy rate in Copenhagen CBD declined in 2011, ending the year at just above 8%. During the first three quarters of 2012, the vacancy rate increased and at the end of the third quarter stood at about 9.5%. This was mainly caused by the eurozone debt crisis that led to a slightly higher unemployment rate. The vacancy rate still represents a surge of more than 6 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 retail areas on Sundays was removed on 1 October 2012. Over half of Denmark's 100 largest shopping centers are located in Greater Copenhagen.

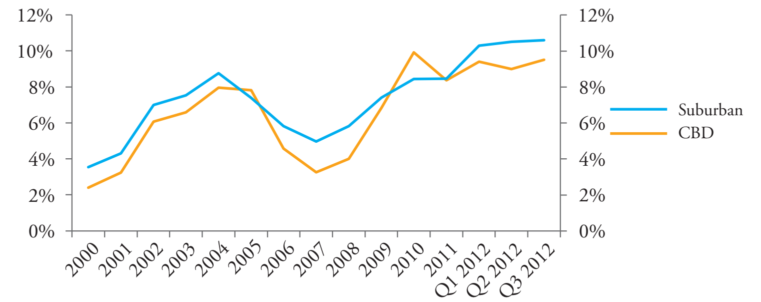
In Denmark, household finances are still impaired by the property bubble of recent years. However, Nordic households are fundamentally strong and private consumption is expected to be one of the most important growth engines during coming years.

Copenhagen Office Rent (DKK/m2)



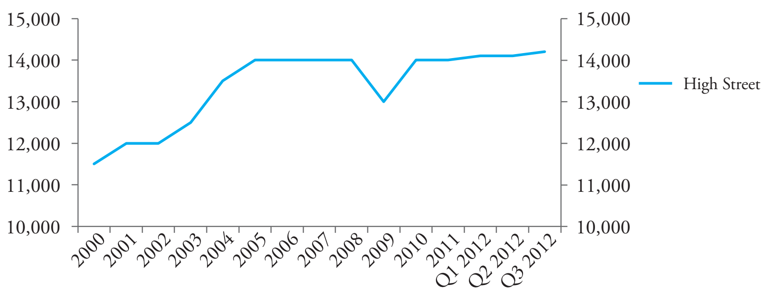
Source: Newsec

Copenhagen Office Vacancy



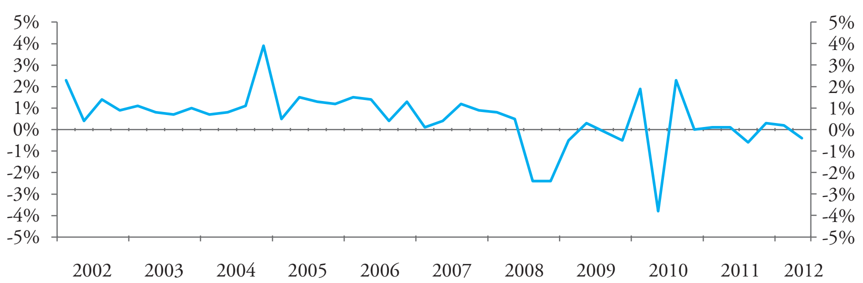
Source: Newsec

Copenhagen Retail Rent (DKK/m2)



Source: Newsec

Retail Trade Turnover | Denmark (Percentage change on previous period)



Source: Eurostat

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. However, the modest supply led to an increase in High Street retail rents in 2010; in 2010 and 2011, rents stood at DKK 14,000 per m2, excluding operating costs and taxes. During the first three quarters of 2012, there was a slight rise, and the prime rent today is DKK 14,200 per m2. High Street rents are expected to remain relatively stable due to occupier demand. A minor upward pressure is expected in the coming two years, due to the lack of new development projects and an anticipated increase in demand.

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 800 million and 500,000 m2 of space.

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