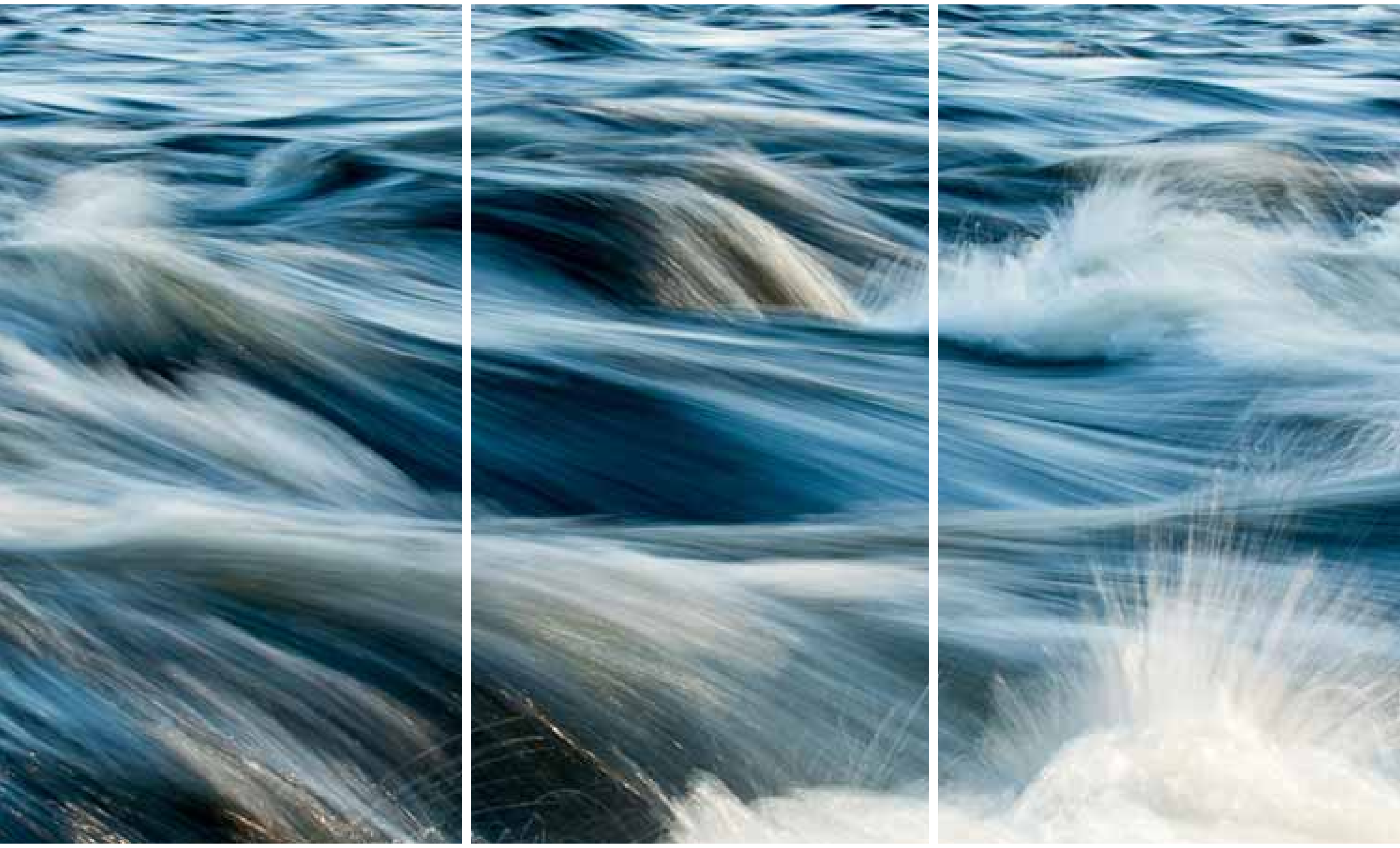
NORDIC INSIGHT

GENESTA

JUNE 2012

MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



PERFECT STORM IN REAL ESTATE DEBT BLOWS A WARM BREEZE FOR THE NORDICS

Five years on from the start of the debt bubble–induced global financial crisis, the scale and management of debt exposure remains the major component of real estate investment market risk.

In our previous issue, we commented on the economic risk of government debt-to-GDP ratios and how excessive ratios impede the future rate of economic growth. In this article, we focus on commercial real estate debt, specifically its potential impact on real estate market risk and performance.

We argue that a perfect storm is brewing in markets with the largest exposure to debt, especially those subject to large funding gaps. Around two-thirds of the estimated EUR 1 trillion of outstanding real estate debt is set to mature by the end of 2014. Banks are reducing exposure to the sector and at the same time are seeking to increase the quality of loan portfolios, ultimately reducing debt as a source of capital. For debt-burdened real estate markets, new regulation is accelerating the process of deleveraging. The risk of market destabilization from a flood of foreclosures and forced sales is escalating. Yet we argue that, for more solvent markets, the low availability of debt will have some positive externalities. Excess supply risk is minimalized and downside volatility is protected into the medium term.

Why Is a Perfect Storm Brewing for European Real Estate Debt?

Four interrelated issues are combining to create the conditions for a perfect storm in debt-burdened real estate markets:

1. The sheer scale of the problem

Of the estimated EUR 1 trillion debt secured on commercial real estate, almost half was initially granted at loan-to-value ratios of at least 70% during the boom period and, of this, more than half is secured on poor-quality assets ***(Chart 1)***.

Given the subsequent decline in real estate values, a debt funding gap emerged, initially representing the equity required to restore loan-to-value covenants. Upon extension or renewal, loan-to-value thresholds have been revised downwards, adding to the equity shortfall known as the “debt funding gap”.

While the recovery in prime, safe-haven markets provides some relief, non-prime asset values deteriorated more sharply than prime and remain subdued. According to DTZ, the debt funding gap actually grew over 2011, amounting to an equity shortfall of some EUR 89 billion. Funding gaps are greatest for poor-quality assets with high loan-to-values, of which many are out-of-the-money. At the end of 2011, while total outstanding commercial real estate debt declined, that secured on highly-leveraged assets grew proportionately. Worse still, for assets that are out of the money the debt funding gap has grown absolutely, given minimal capital expenditure since the downturn, leading to a further deterioration in value.

Of course, exposure to debt is not evenly spread across markets. The United Kingdom and Germany have the largest exposures to commercial real estate debt, but there are differences in its quality.

Chart 2 shows DTZ's estimate of the debt funding gap by country. The United Kingdom has the highest absolute debt funding gap exposure, followed by Spain and France. Even when considered relative to its market size, the United Kingdom's debt funding gap exposure is above average. In contrast, Germany's debt funding gap is more modest. Indeed, Germany, Sweden, Norway and Finland have debt funding gaps amounting to less than 1% of their investable real estate markets. At more than 4%, Denmark is more exposed.

2. Scarcity of debt widespread

Even at the peak of the market, bank lending to real estate debt was highly concentrated. The United Kingdom has the largest share of European debt and DMU's annual survey of more than 70 European bank lenders active in the market provides important insights as to its concentration.

Chart 3 illustrates that throughout the boom at least 75% of UK real estate bank debt was provided by just 12 European bank lenders. Following the financial crisis, there has been further contraction, due to the failure of a number of the largest real estate bank lenders and/or merger and acquisitions activity or strategic withdrawal. Over the same period, bank lenders have focused on restructuring loan books with an emphasis on improving the quality of loan portfolios, often combined with a reduction in overall exposure. With the number of early redemptions falling to all-time lows, lending facilities remain tied up in existing loans.

There has also been some reversal in the globalization of financial markets, with a number of former pan-European lending institutions receding operational scope to domestic markets. More than 40 lenders have withdrawn from the United Kingdom, Europe's largest and most transparent market, since the onset of the financial crisis. The greater solvency as well as the more domestic focus of the banking sector in Norway, Sweden and Finland has lent support to real estate markets as well as helping to underpin regional economic stability. Again, as we commented in our previous newsletter, the greater exposure of Denmark's banking sector to the financial crisis has resulted in a number of high-profile failures that proved contagious across the banking sector.

"A PERFECT STORM IS BREWING IN MARKETS WITH THE LARGEST EXPOSURE TO DEBT, ESPECIALLY THOSE SUBJECT TO LARGE FUNDING GAPS"

Available debt has been largely constrained to high-quality, income-secure assets in markets perceived as safe havens, due either to their scale (London, Paris) or to the strength of their underlying economies (Germany, Sweden, Norway and, to a lesser extent, Finland). Beyond these tier 1 markets, debt scarcity is turning to famine, as these headwinds are accelerated by new banking regulation.

3. Basel III signifies end to managed workout

Until recently, banks pursued a managed workout policy. Loans in breach of financial covenants, such as loan-to-value ratios, but otherwise performing, have had their terms extended, if amended at expiry. Effectively, the harsh process of deleveraging has been softened by the adoption of this managed workout approach. While this tactic has reduced market liquidity and ensured that available debt capital remains tied up, this gradual deleveraging has provided stability to the real estate investment market.

However, the introduction of new banking regulation in the form of Basel III has rapidly increased the pressure to restructure balance sheets. The regulation aims to increase solvency not merely by raising capital liquidity requirements but also by improving the quality of capital. Tier 1 capital adequacy ratios are increased, with assets subject to a risk-adjusted weighting (RAW). Given its relatively low transparency and liquidity, commercial real estate will be subject to higher RAWs than more transparent, liquid and less volatile asset classes.

Within the asset class, differences in transparency, liquidity and performance measurement are likely to result in lower RAWs for mature markets and sectors relative to more emerging options. Similarly, non-prime assets will carry higher RAWs than prime, with the higher volatility associated with development potentially impeding any re-awakening of development finance. Given the disproportionate impact of high gearing ratios on downside volatility, highly-leveraged assets will also carry high RAWs.

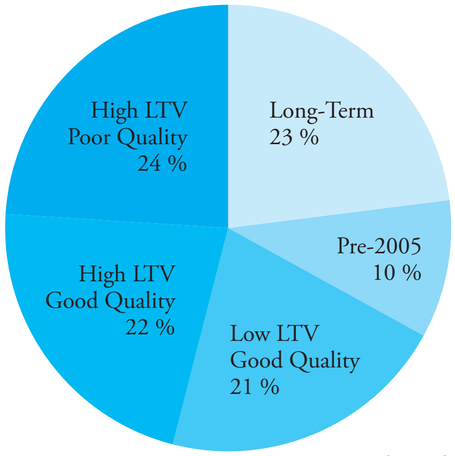
Real estate's higher RAW results in a greater capital adequacy requirement and, therefore, in an elevated risk-adjusted cost of capital. This has a number of implications for real estate debt. Banks are focusing efforts on meeting the revised capital adequacy targets. Given its higher risk weighting, a reduction in real estate exposure has a disproportionately positive impact on balance sheets. Over 2011 and into 2012, a number of large real estate lenders, including Société Générale and Eurohypo, reduced, suspended and withdrew from real estate lending. This exacerbates the already low availability of real estate finance. Even a number of the more solvent Nordic banks have suspended real estate lending informally.

At the same time, the availability of refinancing for highly-leveraged non-prime assets has reduced sharply, with forced sales executed where borrowers are unable to secure alternative sources of capital. The pressure on banks to restructure balance sheets escalates the risk of a market flood of non-performing asset disposals for over-indebted real estate markets. The maturity profile of outstanding debt escalates it yet further.

4. It's all in the timing

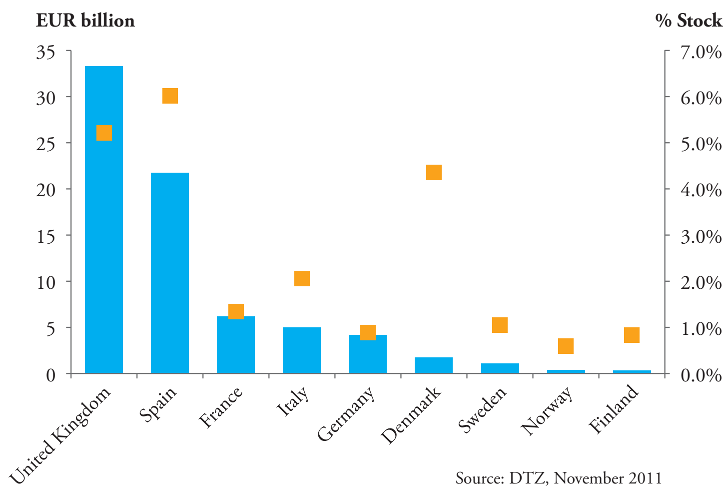
Since the downturn, the value of outstanding debt secured on low-quality assets has increased. The scale of the debt mountain has scarcely moved, with visible reductions only apparent for debt secured on low-leveraged, good-quality assets. As the debt burden has rolled forward, the proportion of debt maturing over the next three years has increased. Approximately two-thirds of the estimated EUR 1 trillion

Chart 1: Outstanding Debt by Risk Category and Domicile of Asset



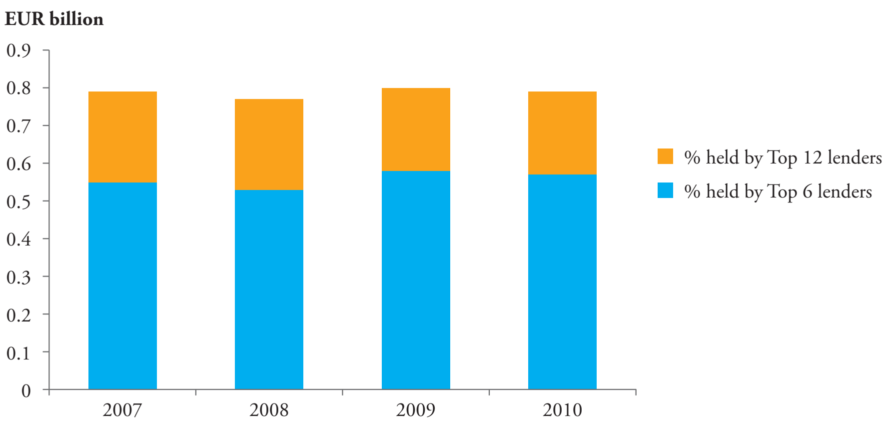
Source: CBRE, 2011

Chart 2: Estimated Debt Funding Gap Relative to Market Size



Source: DTZ, November 2011

Chart 3: Concentration of European Real Estate Bank Lenders by Real Estate Debt Issuance



Sources: INREV, December 2011; DMU, 2011

> "APPROXIMATELY TWO-THIRDS OF THE ESTIMATED EUR 1 TRILLION DEBT OUTSTANDING IS DUE TO MATURE BY END-2014"

debt outstanding is due to mature by end-2014. Worse still, the proportion secured on highly-leveraged secondary and tertiary assets acquired at the peak of the market, and more likely to be out-of-the-money, is high.

Chart 4 illustrates the maturity profile of non-listed real estate funds broken down by style. The value of highly-leveraged opportunity and value-added funds raised at the peak of the market, and commonly subject to the sharpest value declines, increases as a proportion of the value of all funds in the near term.

Coinciding with the pressure to derisk lenders' balance sheets, the heightened risk of market destabilization through a flood into the market of forced sales is clear. Markets at greatest risk are those with the highest levels of commercial real estate debt and/or the greatest exposures to the debt funding gap, including the United Kingdom, Spain, Ireland, Denmark and, while more sector-specific, Germany. The potential impact on Sweden, Norway and Finland is minimal due to the much lower exposure to debt in those countries. Indeed, we believe that the scarcity of debt may enhance performance prospects and lower downside risk.

Why Might a Perfect Storm Bring a Warm Breeze to the Nordics?

While no country is immune to the lower availability and higher marginal cost of debt, the Nordic region has fared better than most other regions. In our previous issue, we commented on the number of offers and favorable finance terms that we have been able to secure for good-quality assets. In part, this is due to the greater solvency of the region's banks, excepting Denmark. However, it also reflects the focus on derisking loan portfolios by international debt providers. Given its economic stability and stronger real estate performance prospects, the region is viewed as a safe haven.

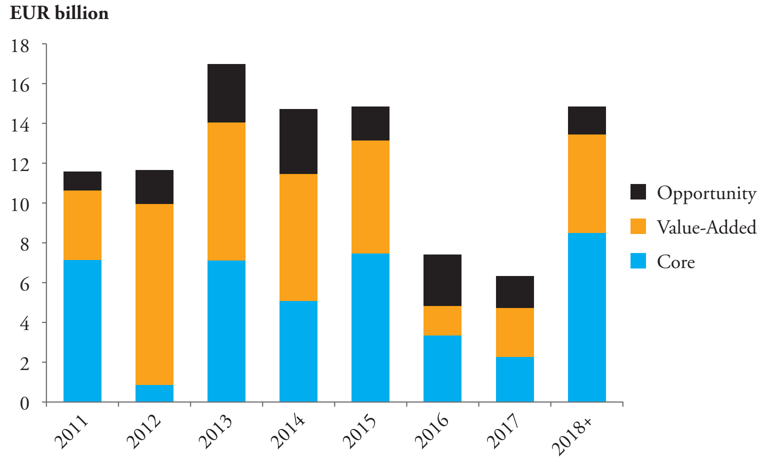
Even as banks reduce lending, the region is set to benefit disproportionately from the growth of alternative sources of debt capital that are primarily focused on safe-haven markets at modest loan-to-value ratios. Such sources include insurance companies, sovereign wealth funds and non-listed real estate debt funds. Thus, while the provision of senior debt will remain constrained, availability within the region is expected to remain relatively strong.

Given Basel III and the risk aversion of institutional debt providers, we do not expect a revival in the availability of development finance in the near term. ***Chart 5*** illustrates current vacancy rates for selected major European office markets against their long-term averages. Vacancy rates in Stockholm, Oslo and the London office markets have fallen below their long-term averages due to stronger occupier demand and low levels of supply from end-2007. In contrast, at more than 18%, vacancy in Madrid remains well above its long-term average of 6.5%. This is due to the severe contraction of the Spanish economy and the slow absorption of excess supply. Net additions to stock across markets remain low, as illustrated in ***Chart 6***. New supply is predominantly non-speculative, providing a cap for vacancy rates and lowering downside volatility in the medium term.

The absence of speculative development in Norway and Sweden effectively neutralizes the supply risk, at least into the medium term. In Stockholm, vacancy in the prime area has fallen to 3% and less than a handful of available properties are capable of satisfying the requirements of large space users. Yet, the prevailing economic climate of uncertainty and low, but recovering business confidence is resulting in market caution. In markets where demand is strengthening but supply is constrained, occupiers will remain price-conscious. This may constrain the traditional spike in super-prime rents and lead to a more modest and even dispersion of rental growth across well-established submarkets.

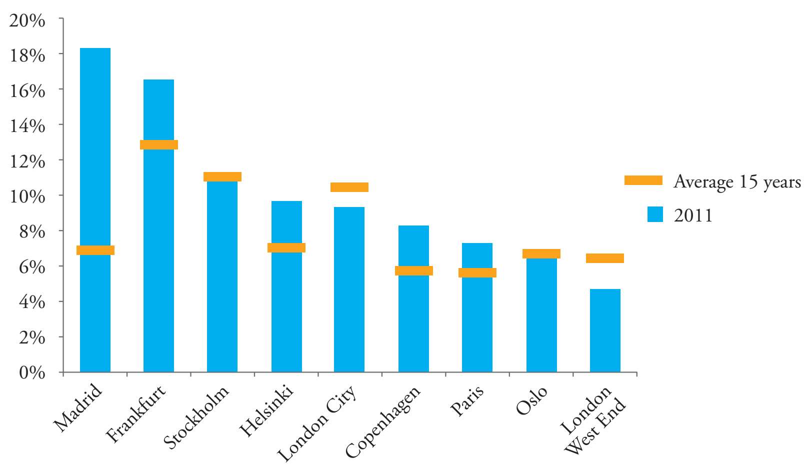
At the same time, the lack of speculative supply will extend the growth cycle and protect against rental decline. In Finland, we have some concerns surrounding the wave of new, poorly-located business parks, but are more positive for assets in established locations. Given its higher exposure to debt, especially the funding gap, investment market risks are higher in Denmark. However, vacancy rates have declined and the supply pipeline has been mute for several years. There are signals that the economy is recovering, benefiting from the stronger performance of the Nordic region. We anticipate stronger opportunities in the medium term as business confidence returns.

Chart 4: Debt Maturity of Funds by Style



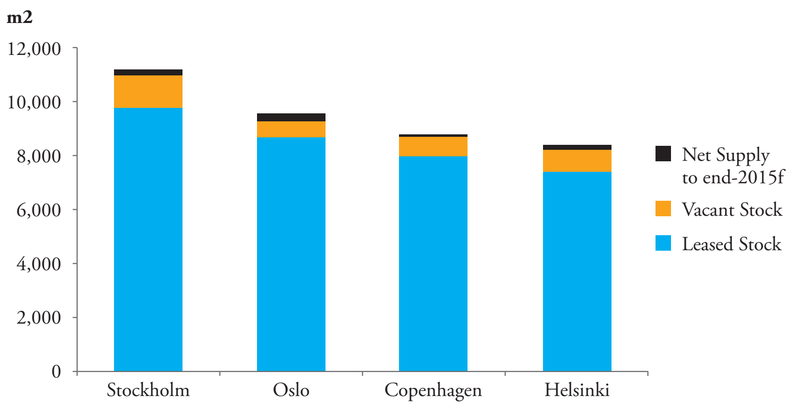
Source: INREV, December 2011

Chart 5: Vacancy Rate at Year-End 2011 versus Long-Term Average for 1997–2011



Sources: Genesta, 2012; Newsec, 2012; CBRE, 2012

Chart 6: Stock, Vacancy and New Supply



Sources: Genesta, 2012; Newsec, 2012; CBRE, 2012

RECURRING PROPERTY TROUBLE

WHY REAL ESTATE IS INCREASINGLY VIEWED AS THE ACHILLES' HEEL OF THE FINANCIAL SYSTEM – AND THE IMPLICATIONS FOR THE REAL ESTATE INVESTMENT INDUSTRY

In a *Financial Times* article last year*, John Plender addressed two developments that are very relevant, and troubling, for the real estate investment industry. First, economic crises have become increasingly common. Second, real estate is generally playing an increased role in crises over time.

The real estate investment industry has reason to take these two developments seriously; if real estate is recognized as a volatile asset class and increasingly is viewed as the Achilles' heel of the financial system, a number of detrimental effects could follow, from lower investor appetite to tougher regulation. There could also be calls for revised investment strategies.

Crises Abound

Who can name a financial crisis that took place between 1933 and 1972? Most people cannot. This is not particularly surprising, as most experts seem to agree that there was not a market disruption during this period substantial enough to be categorized as a crisis. Who can name a crisis that took place in the past 25 years? Most people can actually name five or more.

Thanks to the work of people like Kindleberger and Reinhart/Rogoff, who have put together books on the history of crises, we can study how crises have developed over the past 400 years, from the crash in stocks and tulips in the Netherlands in 1637 to the Mississippi Bubble in 1719–1720, the railway mania of the 1840s, the Great Depression and the Financial Crisis of 2007–2010.

Save for the 1933–1972 period, crises have largely been a constant of history. They have been as recurring and unavoidable as death and taxes.

In the 1970s, the crises resumed – and with a vengeance. In 1973 came the oil shock that is likely to have been part of the cause of the stock market crash and global downturn in 1974–1975. In 1973–1975, the secondary banking

"CRISES HAVE BEEN AS RECURRING AND UNAVOIDABLE AS DEATH AND TAXES"

crisis shook the United Kingdom. In the 1980s, we experienced the Latin American crisis, beginning with Mexico in 1982. On 19 October 1987, also known as "Black Monday", we experienced the biggest one-day drop in the history of the US stock market. Then came the US savings and loans crisis in 1989–1991. In April 1991, the Japanese stock market and real estate bubble burst, starting a financial crisis that was to haunt the Japanese economy for decades. In the early 1990s, Nordic banks collapsed in the Nordic Banking Crisis, also very much as a result of massive losses on commercial real estate loans. In 1994, we experienced a crisis in Mexico and in 1997 the Asian Financial Crisis. In 1998, the Russian crisis. In 2001, the dot-com bubble. In 2007–2010, the financial crisis, starting with subprime mortgages in the United States. To name a few.

From 2002 to 2006, we experienced a hiatus, actually an unusually long period of calm between two crises when compared to the amount of time that elapsed between other crises since the 1970s. And what followed in 2007–2010 was the largest crisis since the Great Depression, and arguably one of the largest crises in history. One obviously has to ask the question of whether the unusually long period of the perfect calm that preceded the latest crisis had anything to do with its severity. We think it is more likely than not.

Prior to the 1930s, it was not uncommon that 10 or 15 years elapsed between major crises. Now it seems that four to seven years is the norm.

So it seems that the world has become a riskier place, more prone to financial disaster.

Real Estate at the Center

According to Kindleberger and contrary to popular belief, the scale of losses suffered on commercial real estate loans was the predominant reason that 4,800 banks crashed during 1930–1933. While recognizing that real estate played a major role as early as the Great Depression and also before then, it does seem that losses on real estate in conjunction with economic downturns have tended to increase over time. This is not to say that real estate is necessarily the cause of a downturn, but the losses on real estate that follow from a downturn are often large and can cause financial distress. For example, a downturn may start with a sharp increase in the oil price and a drop in share prices. As the downturn progresses, losses on real estate and real estate debt mount and may become worse than the initial consequences of the increase in the oil price and drop in share prices.

There is no dearth of crises during the past 30 years in which real estate has played a major role: the global downturn of 1974–1975, the downturn of 1982–1987, the Japanese crisis in 1991, the Nordic Banking Crisis in the early 1990s and the Financial Crisis of 2007–2010. And, needless to say, the

> "LOSSES ON REAL ESTATE IN CONJUNCTION WITH ECONOMIC DOWNTURNS HAVE TENDED TO INCREASE OVER TIME"

losses have been huge and have put a major strain on banks – and on governments.

So why has real estate played a more central role in crises lately?

Real Estate a Sink for Liquidity

The exact reason for the increased tendency for real estate to be at the center of economic crises is definitely uncertain. There are, however, a number of theories. One of the more prevalent ones is that real estate is increasingly acting as a sink for liquidity. Historically, investments in technical innovation have often soaked up liquidity and have been the objects of favor when credit expansion picks up. However, as John Plender points out, demand from the industry, excluding financials, is not what it used to be. The investment rate, meaning investments in real, physical assets (such as infrastructure, plant and equipment) as a share of GDP, has declined significantly since the 1970s. This long-term decline in demand for capital has helped feed credit bubbles.

During the dot-com bubble, the losses in real estate were comparatively benign. Plender conveys the insight that this may have been one of those few occasions in the past 40 years that markets were so enthusiastic about a new technological innovation (information technology) that money flowed there and not into real estate.

The increased tendency to divert liquidity into real estate would perhaps not have been such a problem had it not been for the growth in availability of credit during the past 40 years. With each passing crisis, more and more government support (increased liquidity, implicit or explicit governmental guarantees, lower reserve requirements) was given to banks. This resulted in a situation where credit expansion has grown rapidly during the past 40 years and where the amount of available credit has often reached new heights with each passing upturn.

Implications for the Industry

If we assume that these two trends are correct, what are the implications for our industry?

Firstly, we are going to have to adapt to living in a riskier world. We will see bigger ups and downs, and with increased frequency. Our investment strategies will have to adapt accordingly. Perhaps it is time to improve our risk management techniques, to demand higher premiums for holding illiquid assets, and to recognize that high leverage may no longer be needed to achieve high returns on equity. Proper diversification will be even more important than it has been in the past.

It may also mean that, in the future, it will be even riskier to do what has always been risky and has brought down so many companies in the past: to

> “WE ARE GOING TO HAVE TO ADAPT TO LIVING IN A RISKIER WORLD. WE WILL SEE BIGGER UPS AND DOWNS, AND WITH INCREASED FREQUENCY”

finance illiquid assets with short-term and/or unstable financing. The need for better asset-liability management, having debt that will last you through a downturn, will be essential in avoiding heavy losses. By this, we do not just mean that debt needs to have to some term to it, it also means focusing more on achieving lighter covenants rather than simply focusing on achieving low margins. It means making sure that you have a good and stable relationship with the financing bank. And it means settling for lower leverage.

Second, it could in the longer term entail tighter regulation. If regulators start viewing real estate as the Achilles’ heel of the financial sector, surely they will take action and over time regulation will become tougher. We are already seeing some of the effects of this through Solvency II.

Third, as the higher systematic risk in real estate is recognized, the demand from investors and their asset allocations will, needless to say, head south.

Fourth, and which follows from the third consequence, as real estate is viewed as a riskier asset class, the trajectory of asset values will shift downward, as investors demand higher returns and thus lower prices.

It’s Not All Bad

It would be hard to argue that this increased volatility is good for society as a whole. But with risk comes opportunity and, for those who manage to be more heavily invested in the upturns than in the downturns, the increased volatility will be a tremendous opportunity. Fortunes will not only be lost but also made in the volatile real estate market. ■

This article is the author’s revised version of the original article that appeared in the July/August 2011 issue of *The Institutional Real Estate Letter – Europe.*

*Property; Overarching Problems, John Plender, *Financial Times*, 26 January 2011

SWEDEN

STILL OUTPERFORMING THE EUROZONE

Sweden will probably struggle to expand at more than a snail's pace this year. But it will remain one of Europe's strongest performers.

On the face of it, Q4 2011's 1.1% plunge in GDP, which was mainly down to a steep drop in exports, provided the clearest sign yet that the eurozone debt crisis is taking a heavier toll on Sweden. Indeed, at 1.1%, annual GDP growth in 2011 was only slightly stronger than the equivalent eurozone figure of 0.7%.

But, in early 2012, we doubt that exports will contract as sharply as Q4 2011's quarterly fall of 3.9%. Despite the ongoing strength of the krona, survey-based measures of firms' export orders have recently picked up. ***(See Chart 1.)***

What's more, other timelier data suggest that Q4 2011's contraction may prove to be a one-off. The EC Economic Sentiment Indicator (ESI) for Sweden, which measures business and consumer confidence, has recently risen sharply and now appears consistent with annual GDP growth of more than 2%. ***(See Chart 2.)*** And as ***Chart 3*** shows, this pick-up has been pretty broad-based across the economy's main sectors.

Note, too, that in comparison to many other economies, Sweden has greater scope to loosen conventional monetary policy. We expect the Riksbank to reduce interest rates, perhaps to 0.5% next year. And since public debt is low and the government ran a small budget surplus last year, there is no need for a fiscal squeeze. We also expect CPI inflation to ease over the coming months, helping to support household spending. ***(See Chart 4.)***

Based on all this, there appears to be a good chance that Sweden, unlike many of its European counterparts, will avoid falling into recession. Nonetheless, a slow but unspectacular expansion seems likely.

The labor market recovery may already have come to an end. Employment growth has slowed sharply and the unemployment rate is climbing. ***(See Chart 5.)*** Falling house prices may encourage households to save more. Meanwhile, weak demand from the eurozone will hit exporters hard.

In all, we have penciled in GDP growth of 0.5% or so this year and next. This is weak by historical standards, but relative to the eurozone we expect Sweden to perform well. ***(See Chart 6.)*** Accordingly, we think that the krona may rise against the euro.

Q4 2011's hefty quarterly decline in GDP confirms that the recoveries in Stockholm's commercial property occupier markets are not set in stone. But given that our forecasts for rental value growth were already predicated on a subdued economic outlook, our views that office and industrial rental values will fall modestly this year, while rental growth in the retail sector stalls, appear to be on track.

On the investment market side, commercial property yields in Stockholm currently offer very healthy spreads over 10-year government bond yields. But note that the 25bps rise in bond yields in Q1 2012 reduced the relative attractiveness of property slightly. ***(See Chart 7.)*** ■

Chart 1: Swedish Exports & EC Export Orders

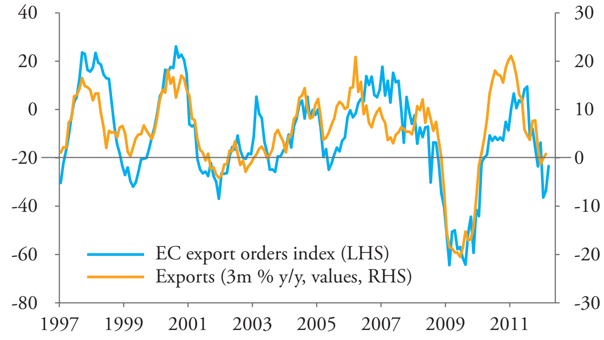


Chart 2: Swedish GDP & EC ESI

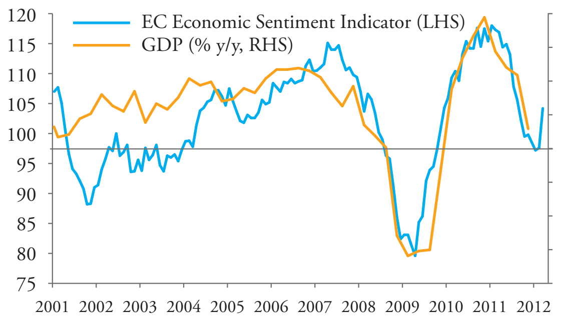


Chart 3: EC Industrial, Services & Consumer Sentiment

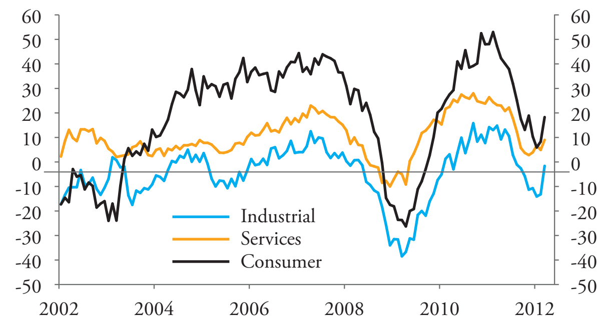


Chart 4: Swedish Headline & Core HICP Inflation

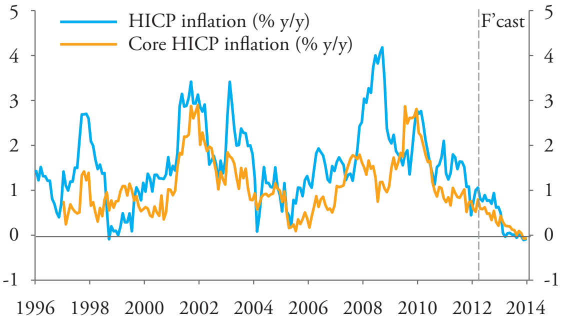


Chart 5: Employment & Unemployment Rate

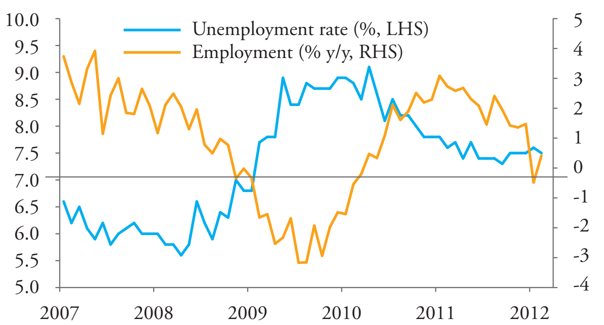


Chart 6: Swedish & Eurozone GDP (% y/y)

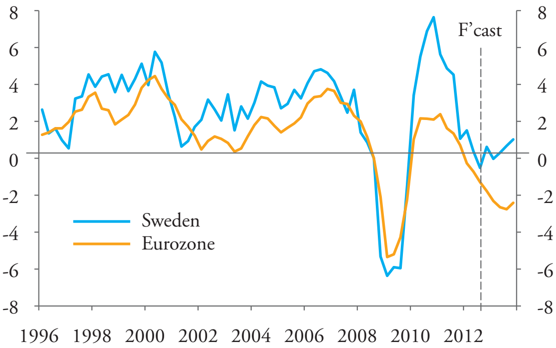
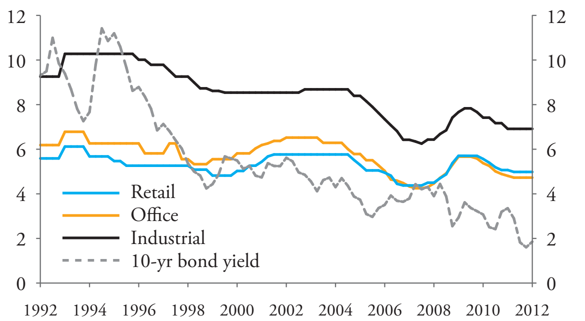


Chart 7: Stockholm All-Property and 10-year Swedish Government Bond Yields (%)



Sources: Statistics Sweden, European Commission, Capital Economics

FINLAND

BETTER THAN MOST, BUT STILL LIKELY TO FOLLOW THE REST OF THE EUROZONE INTO RECESSION

Finland is still one of the eurozone's better performers. But despite its healthy fiscal position and sound banks, the economy may not be resilient enough to avoid following the rest of the eurozone back into recession.

Unlike the eurozone as a whole, the Finnish economy continued to expand in Q4 2011, albeit only by 0.1%. What's more, there are several reasons why Finland may continue to fare a little bit better.

After all, the fact that the Finnish EC ESI has recently risen more sharply than the equivalent eurozone index bodes well. *(See Chart 1.)*

In addition, Finland is one of the few eurozone economies where the unemployment rate is still falling. *(See Chart 2.)* Households have also benefited more than their counterparts elsewhere from falling inflation. *(See Chart 3.)*

Finally, the public finances remain in good shape, implying that fiscal policy could be loosened if growth prospects deteriorate. Indeed, the budget deficit was just 0.5% of GDP last year, while public debt was only 49% of GDP. *(See Chart 4.)* Both are below the Stability and Growth Pact targets of 3% and 60% of GDP, respectively.

Despite all this, however, we expect the Finnish slowdown to intensify. For a start, despite the recent pick-up, business and consumer sentiment remain weak and still point to economic stagnation. *(See Chart 5.)* What's more, if market concerns about Spain grow, this could dent business and consumer sentiment throughout the eurozone.

Finally, exporters have recently performed badly by eurozone standards. *(See Chart 6.)* And given that exports slowed especially sharply during the global financial crisis, we expect further sharp falls as demand in the rest of the eurozone contracts.

Over the next year or two, then, Finland's economic performance is likely to underperform relative to most of its Scandinavian neighbors. We expect GDP to shrink by about 0.5% this year and by 2% or so in 2013, just a touch better than our eurozone forecast.

For Helsinki's commercial property markets, the post-recession peak for office and retail rental value growth appears to have passed. The pace of growth for both sectors has slowed from highs of around 10% y/y this time last year, to 4% or less now. In common with the rest of the eurozone, industrial rents were slower to bounce back. But this does not leave them less vulnerable to a renewed economic downturn. We expect rents for all three of the main commercial property sectors to stay flat during the next two to three years. *(See Chart 7.)*

This suggests that the spread between property yields and 10-year Bund yields (our preferred benchmark risk-free rate) may need to widen. However, at 365bps, the current all-property/Bund yield spread is already high and any further widening would probably be overdone. ■

Chart 1: Finnish & Eurozone EC Economic Sentiment Indicator

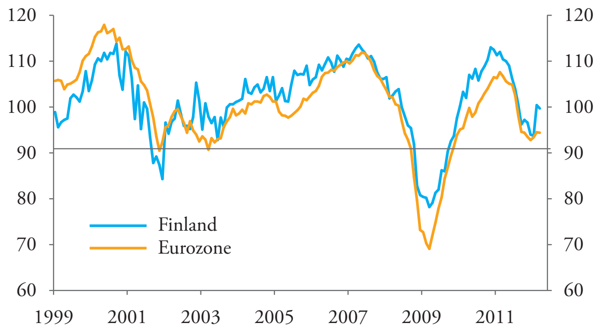


Chart 2: Unemployment Rate (%)

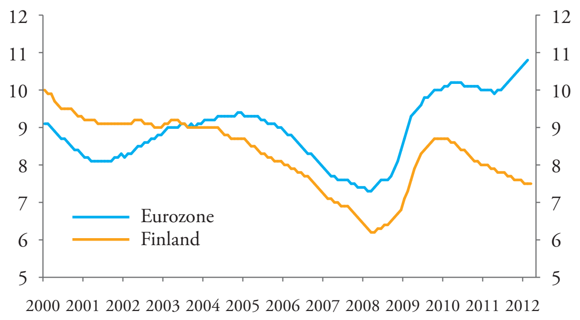


Chart 3: Finnish & Eurozone HICP Inflation (% y/y)

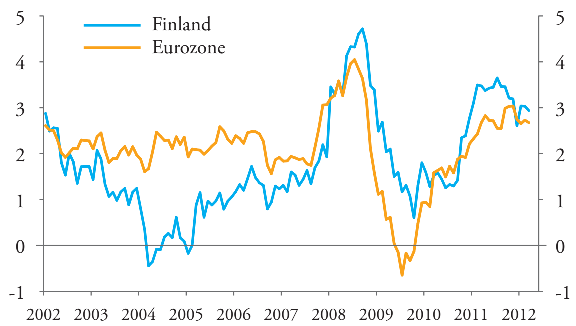


Chart 4: Budget Deficit & Public Debt (% of GDP)

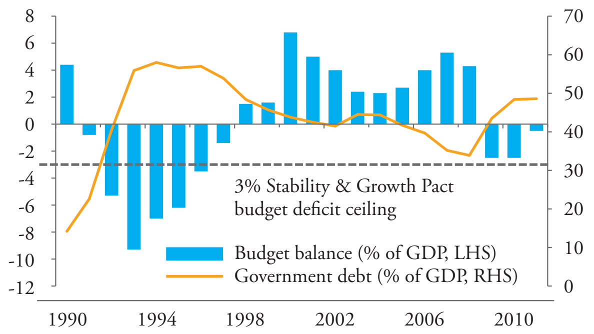


Chart 5: Finnish EC Economic Sentiment Indicator & GDP

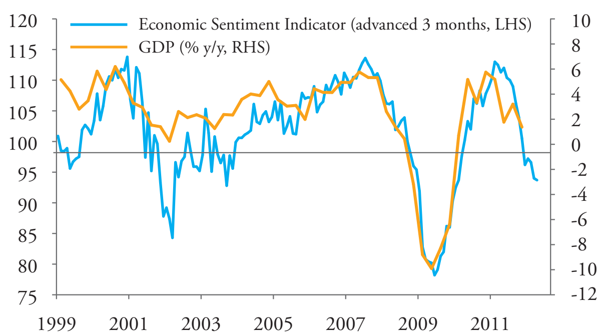


Chart 6: Eurozone & Finnish Exports (Q1 2008=100)

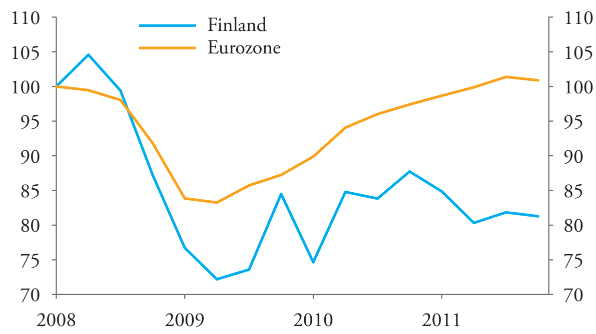
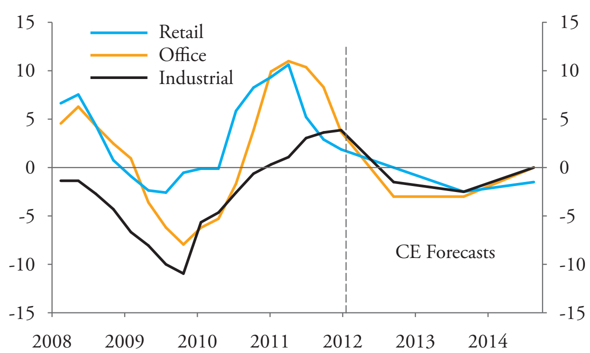


Chart 7: Helsinki Commercial Property Rental Value Growth (% y/y)



Sources: Eurostat, European Commission, ECB, Capital Economics

NORWAY

A SOLID PERFORMER

Norway continues to be one of the better-performing economies in western Europe. Petroleum sector investment – and the oil sector in general – continues to feature strongly as a mainstay of economic activity.

The outlook for consumer spending remains positive. Confidence has nudged higher, supported by a downward trend in unemployment and increasing real wages. *(See Chart 1)*. Indeed, households' real purchasing power seems likely to stay healthy for some time.

The continued strength of the krone (partly reflecting the continuing eurozone debt crisis) should help keep price pressures in check. But tempering this outlook, banks are tightening lending standards to households. The three-month interbank rate has stayed high despite recent cuts in the main policy rate and we think this is likely to persist even as official rates are reduced further. *(See Chart 2.)*

Meanwhile, Norway's net trade prospects are hampered by currency strength and weak foreign demand. Our view that the eurozone debt crisis will intensify suggests that the latter will be a big factor next year. This is reflected in our 2013 GDP growth forecast of just 0.5%, following 2% growth this year. *(See Chart 3.)*

The near-term prospects for commercial property returns in Oslo are bright by European standards. We expect yields to remain largely flat during the next year. ■

Chart 1: Retail Sales & Household Spending

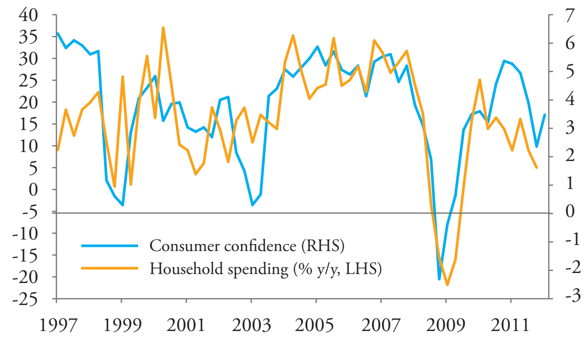


Chart 2: 3-Month Interbank and Official Policy Rates

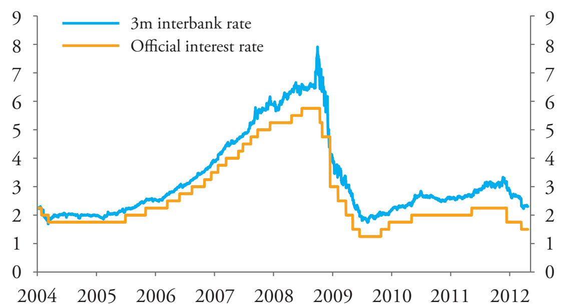
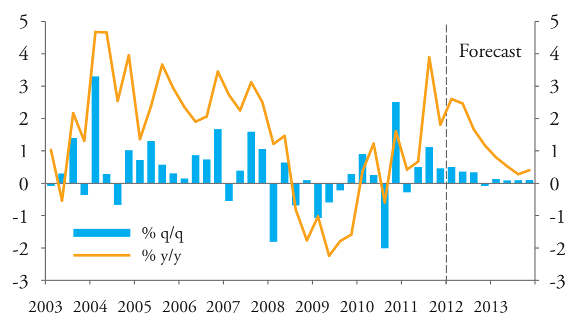


Chart 3: GDP



Sources: Statistics Norway, Bloomberg, Capital Economics

DENMARK

FEW SIGNS OF RECOVERY

Taken overall, economic indicators in Denmark suggest that the economy will fall deeper into recession this year.

Admittedly, some surveys of economic sentiment have been a little more encouraging. For instance, EC data on consumer confidence in Denmark improved further in March, after February's gain.

But industrial sentiment pulled back modestly. And the "bigger picture" in Denmark does not point to sustained recovery. Bank lending to households and firms continues to contract. Meanwhile, house prices fell by almost 8% in the year to December 2011 ***(see Chart 1)***, raising questions over whether the recent improvement in consumer sentiment is durable. And while the unemployment rate is low compared with the eurozone ***(see Chart 2)***, elevated price pressures will compromise households' real pay.

As for exports, Denmark could yet benefit from modest economic growth in some trading partners such as Sweden. But owing to the recession in the eurozone, we think net trade is poised to act as a drag on overall activity both this year and next. We expect a fall in GDP this year of 1.0% and a 2.0% decline in 2013. ***(See Chart 3)***.

The sharp fall in Danish 10-year government bond yields over the past year has increased the relative attractiveness of Copenhagen commercial property yields. Property/bond yield spreads are still among the lowest in the eurozone. The outlook for capital growth in the near term is thus not so strong. Over the medium to longer term, we think the Danish market will provide good opportunities for attractive risk-adjusted returns. ■

Chart 1: House Prices

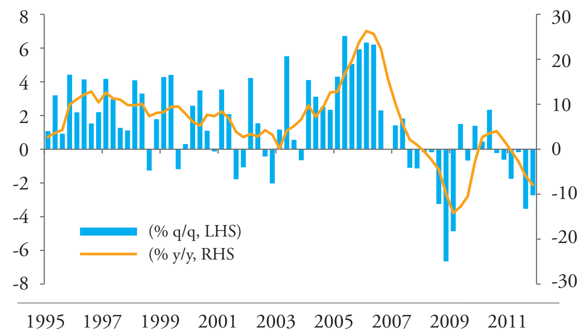


Chart 2: Unemployment Rate (%)

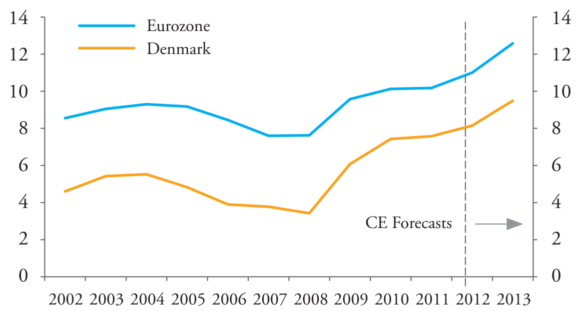
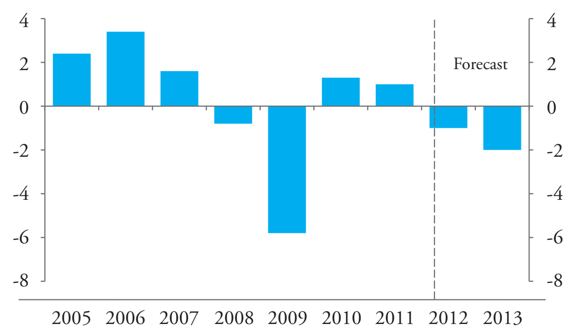


Chart 3: GDP (% y/y)



Sources: Statistics Denmark, European Commission, Danmarks Nationalbank, Association of Danish Mortgage Banks, Capital Economics

DETAILED FORECASTS

TABLE 1. REAL GDP (% CHANGE YEAR-ON-YEAR)

% change year-on-year	Average 1998–2007	2008	2009	2010	2011	2012f	2013f
Sweden	3.4	-0.8	-5.0	5.8	4.0	0.5	0.5
Finland	3.7	0.3	-8.4	3.7	2.9	-0.5	-2.0
Norway(1)	2.4	0.0	-1.7	0.7	1.7	2.0	0.5
Denmark	2.0	-0.8	-5.8	1.3	1.0	-1.0	-2.0
Eurozone	2.3	0.2	-4.3	1.8	1.5	-1.0	-2.5

(1) Total GDP (not mainland)

TABLE 2. CPI (HICP, % CHANGE YEAR-ON-YEAR)

% change year-on-year	Average 1998–2007	2008	2009	2010	2011	2012f	2013f
Sweden	1.5	3.3	1.9	1.9	1.4	0.8	0.0
Finland	1.5	3.9	1.6	1.7	3.3	3.0	1.0
Norway	1.8	3.4	2.3	2.3	1.2	1.2	0.7
Denmark	1.9	3.6	1.1	2.2	2.7	2.2	1.0
Eurozone	2.0	3.3	0.3	1.6	2.7	2.3	1.0

TABLE 3. UNEMPLOYMENT RATE (%)

% workforce	Average 1998–2007	2008	2009	2010	2011	2012f	2013f
Sweden	7.6	6.2	8.3	8.4	7.5	7.7	8.5
Finland	9.0	6.4	8.2	8.4	7.8	8.0	9.5
Norway	3.5	2.5	3.1	3.5	3.3	3.3	4.0
Denmark	4.7	3.4	6.1	7.5	7.6	8.2	9.5
Eurozone	8.9	7.6	9.6	10.1	10.2	11.0	12.5

DETAILED FORECASTS

TABLE 4. GOVERNMENT BUDGET BALANCE (% OF GDP)

% of GDP	Average 1998–2007	2008	2009	2010	2011	2012f	2013f
Sweden	1.3	2.2	-0.7	0.3	0.3	-0.5	-1.0
Finland	2.9	4.3	-2.5	-2.5	-0.5	-2.0	-2.5
Norway	11.6	18.8	10.6	11.4	13.6	10.0	10.0
Denmark	2.3	3.2	-2.7	-2.5	-1.8	-6.0	-4.5
Eurozone	-1.9	-2.1	-6.4	-6.2	-4.1	-3.7	-3.7

TABLE 5. OFFICIAL INTEREST RATES (%)

% year-end	Average 1998–2007	2008	2009	2010	2011	2012f	2013f
Sweden	3.14	2.00	0.25	1.25	1.75	1.00	0.50
Finland	3.06	2.50	1.00	1.00	1.00	1.00	1.00
Norway	4.85	3.00	1.75	2.00	1.75	1.00	1.00
Denmark	2.98	3.75	1.20	1.05	0.70	0.70	0.70
Eurozone	3.06	2.50	1.00	1.00	1.00	1.00	1.00

TABLE 6. HOUSE PRICES (% CHANGE YEAR-ON-YEAR)

% change year-on-year	Average 1998–2007	2008	2009	2010	2011	2012f	2013f
Sweden	9.4	2.1	5.3	6.3	1.3	-2.0	-2.5
Finland	6.2	5.9	4.0	8.7	2.8	-1.5	-2.0
Norway	7.3	8.5	3.2	1.6	5.7	3.0	1.2
Denmark	11.1	24.6	22.5	3.0	-4.2	-6.5	-2.0

SWEDEN

Sweden has a population close to 9.5 million, which has increased by an average of 0.7% per year over the last five years. 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*. The unemployment rate fell during Q1 2012 and in March stood at 7.3%, a fall of 0.2% from the December 2011 figure.

The Investment Market

The transaction volume on the Swedish property market during Q1 2012 was the highest for five years and stood at SEK 22.1 billion, close to 40% higher than the same period in 2011. International investors accounted for nearly 30% of the transaction volume in Q1 2012. Investments in the office and residential sectors increased during the first quarter while investments in the retail sector dropped significantly compared to 2011.

During the first quarter of 2012, the difference between high-quality office properties and office properties in secondary locations with higher risk remained, in the form of vacancies and short remaining lease commitments. The residential portfolios sold by the municipality of Stockholm drew significant attention from several investors, which contributed to low yields. The two office properties sold by Länsförsäkringar Liv, Såpsjudaren 15 and Lönnen 25, are both located just outside the boundaries of Stockholm's CBD but were still sold at prices comparable to acquisitions made in the Stockholm CBD during the second half of 2011.

The Carlyle Group, one of the world's largest fund managers with more than USD 150 billion in managed capital, acquired Nacka Strand from Vasakronan in January 2012. The area, which has been under Vasakronan's ownership for 20 years, brought in close to SEK 3 billion in an off-market transaction. Nacka Strand covers about 250,000 m2, about 80% of which constitutes leasable surface area and 20% garages. The leasable surface area consists largely of offices, but also residential, schools, hotels and conference premises. The office portion currently has a significant vacancy rate.

The Office Market

The total office stock in Greater Stockholm amounts to some 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, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby.

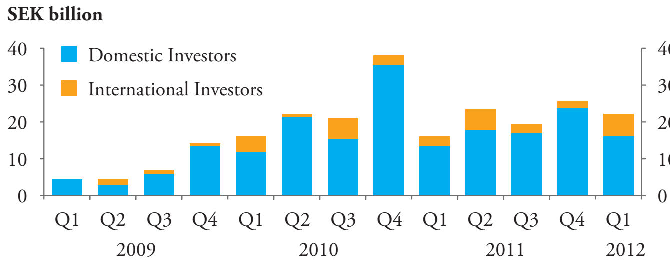
New Supply

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. About 80% of the office space completed in 2011 is now let. New construction for 2012 is back to a high level of close to 130,000 m2, of which over 90% is pre-let. Only a few new-construction projects that were initiated speculatively are currently in progress in Stockholm. These projects are Skanska's Lustgården, NCC's Torsplan and Fabege's Uarda 1.

List of Transactions - Top 8 - Greater Stockholm Area - Q1 2012

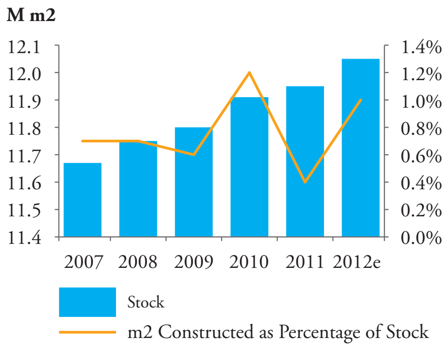
No.	Object	Location	Buyer	Seller	Property Type	Value (SEK million)	Size (m2)	Yield (%)
1.	Real Estate Portfolio	Stockholm (Nacka Strand)	The Carlyle Group	Vasakronan	Office and others	2,950	248,000	N/A
2.	Residential Portfolio	Stockholm (Suburbs)	Willhem	Familje-bostäder	Residential	1,463	91,000	N/A
3.	Läkaren 8 and 9	Stockholm (Vasastan)	Norrporten	Handels-banken Liv	Office	~ 1,100	53,000	N/A
4.	Residential Portfolio	Stockholm (Hagsätra)	Ikano	Svenska Bostäder	Residential	890	88,600	N/A
5.	50% of Blästern 13	Stockholm (Norrtull)	Atrium Ljungberg	Hum-legården	Office	630	20,000	~ 5.25%
6.	Såpsjudaren 15	Stockholm (Norrmalm)	KLP Eiendom AS	Läns-försäkrin-gar Liv	Office	570	13,300	4.75 %
7.	Lönnen 25	Stockholm (Östermalm)	AFA Fastigheter	Läns-försäkrin-gar Liv	Office	~ 400	5,600	~ 4.75%
8.	Residential Project	Stockholm (Älvsjö)	Familjebostäder	Maxera Bostad	Residential	331	-	N/A

Transaction Volume Quarterly | Sweden



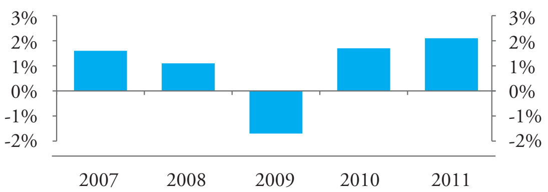
Source: Newsec

Greater Stockholm - Office



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

List of Office Projects - Top 5 - Sweden - Q1 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.	New Headquarters for Vattenfall	Stockholm (Arenastaden)	Fabege	43,000	2009	2012
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 - Q1 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

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. Skanska initiated its Lustgården office project during 2011 and announced that the company intends to locate its head office at Lustgården in fall 2013, and will then occupy about half of the area in the 55,000 m2 office building. During the first quarter of 2012, Nordea announced that it intends to reduce its accommodation needs in Stockholm of currently approximately 90,000 m2 to approximately 65,000 m2 by 2015. As part of this strategy, Nordea signed a lease agreement with Skanska for approximately 24,000 m2 in Lustgården. Hence, only a few thousand square meters of office space now remain available at Lustgården for other tenants.

Swedbank will relocate all the bank's operations, presently located in Gallerian in Stockholm CBD, to new premises developed by Humlegården in Sundbyberg. The relocation will take place at the turn of the year 2013–2014. The third office project from the top five listing is Vattenfall's new headquarters, which is being built in Arenastaden. Vattenfall will move to its new location during the third quarter of 2012.

The Occupier Market

Newsec is continuing to adjust Stockholm CBD rental levels upwards, and these are now estimated at SEK 4,450 per m2, an increase of just over 11% since Q1 2011. We estimate that the rent at the end of 2012 will be SEK 4,500 per m2 and SEK 4,600 per m2 at the end of 2013. Vacancies continued to fall during Q1 2012 and in the CBD the vacancy rate is about 4.0%. Vacancy in the CBD is expected to continue to fall until around the end of 2013, when Swedbank will be leaving Gallerian, Försäkringskassan will be leaving Uggleborg 12 on Vasagatan, Diligentia will have completed the renovation of Träsket 17 on Sveavägen and a mild economic downturn is forecast.

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. It is property owners who hold the advantage in negotiations with tenants. But in less attractive submarkets and for office premises in unmodernized properties, rent discounts and contributions towards moving costs are becoming ever more common during relocation and renegotiation.

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 resultant low growth. However, retailing made a strong start to 2012, showing the strongest performance since the spring of 2011. There are several explanations for this brighter trend. Household optimism has risen a little, and there is probably some pent-up demand to go shopping after six months of restraint.

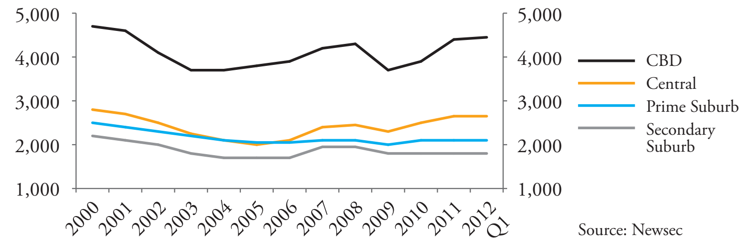
Household real disposable incomes increased by 1% to 1.5% per year in 2009 and 2010, and are expected to increase at a rather higher rate in 2011–2012 due to a combination of wage rises and low inflation. Likely reductions in interest rates and a continuing stable labor market are expected to have a 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

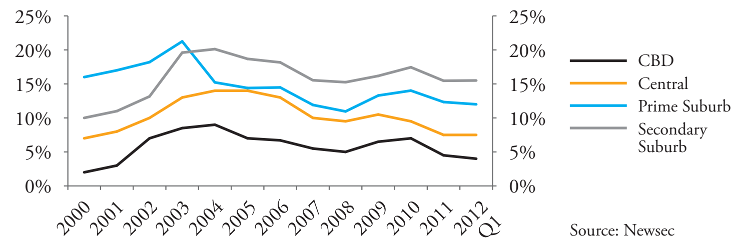
2011, Unibail-Rodamco acquired building rights for the intended project area. Täby Centrum, also owned by Unibail-Rodamco, is to add about 25,000 m2 of retail space, which is expected to be complete in 2015. The new shopping center Emporia will have about 65,000 m2 and is being developed by Steen & Strøm. Emporia will open in October 2012.

Stockholm Office Rent (SEK/m2)



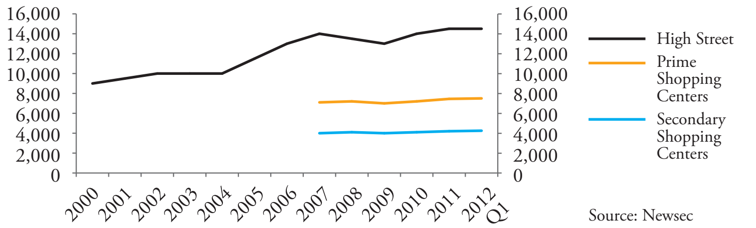
Source: Newsec

Stockholm Office Vacancy



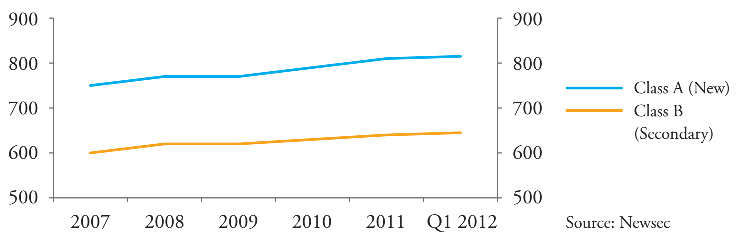
Source: Newsec

Stockholm Retail Rent (SEK/m2)



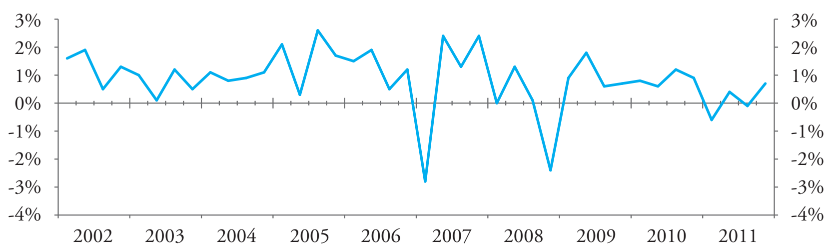
Source: Newsec

Stockholm Logistics Rent (SEK/m2)



Source: Newsec

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



Source: Eurostat

The Occupier Market

High Street retail rents were fairly stable throughout the second half of the 2000s, due to the inherent stability of Swedish private consumption. The High Street retail rent was stable at SEK 14,500 per m2 during Q1 2012 but is projected to rise to 15,000 per m2 during the second half of 2012.

The Logistics Market

The logistics market is correlated to private consumption, which is expected to be one of the major growth engines in the Swedish economy during coming years. The demographical center 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 also 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

The rent level for prime logistics properties is 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, which has led to a decreasing supply of vacant logistics space. Hence, class B space in Stockholm has seen a slight increase in rent. ■

FINLAND

Finland has a population of 5.4 million, with an annual average growth of 0.5% over the last five years. In 2011, the population grew by 26,000, the largest annual increase since 1991. The Greater Helsinki area accounts for just over 25% of the Finnish population, and its population has grown by an average of 1.2% per year during the last five years. In 2011, Finland had a GDP of USD 267 billion, about USD 49,000 *per capita*. The labor market showed positive signs during 2011 and the unemployment rate in December 2011 was 7.8%, a fall of 0.6% since December 2010.

The Investment Market

The transaction volume during the first half of 2011 increased by one-third compared to the same period of 2010. The opposite situation occurred during the second half of 2011, when the debt crises in the eurozone affected the property market and when liquidity was cut in half compared to the same period of 2010. However, the first quarter of 2012 saw the year get off to a good start and the transaction volume increased against the respective period of 2011 – from EUR 230 million to EUR 370 million. From an historical perspective, the transaction volume is Finland continues to be low.

Niam sold a retail portfolio consisting of 68 properties to Sveafastigheter Fund III and its local asset management partner Capitol Asset Management. The properties are located all across Finland and consist of small- and medium-sized grocery stores with a leasable area adding up to approximately 80,000 m2. The properties are fully let. The assessment is that the underlying property value is exceeding EUR 100 million.

Retail specialist Citycon acquired the retail center Arabia from the insurance company Tapiola Group. The retail center is located in the outskirts of Helsinki CBD and has a gross leasable area of 14,000 m2, with 11,400 m2 of retail premises distributed over 31 shops. 93% of the retail premises are let. The net initial yield on the acquisition is about 6% but is expected to increase to 7% after planned development is undertaken.

The Office Market

The size of the total office stock in the Finnish university cities is about 11 million m2, with the largest volumes in Helsinki, Espoo, Tampere, Vantaa and Turku. About 8.5 million m2, or 75 percent of the total stock, is located in the Helsinki Metropolitan Area (HMA), which is the commercial center of Finland. Of the HMA office stock, 70% is located in Helsinki itself and the remaining parts are located in Espoo and Vantaa. CBD Helsinki 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, Center Pasila and Kalasatama in Helsinki, Keilaniemi and Leppävaara in Espoo, and Aviapolis in the Vantaa region.

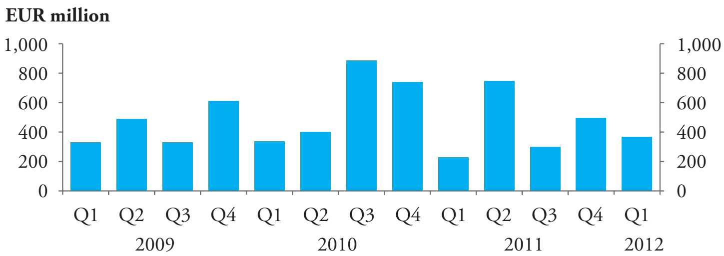
New Supply

There are many projects that can be started in the near future. Most developers await signs of a better economic climate or a certain occupancy rate

List of Transactions - Top 8 - Greater Helsinki Area - Q1 2012

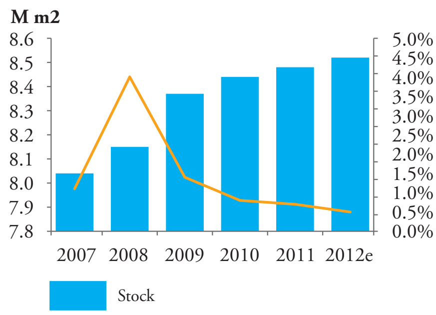
No.	Object	Location	Buyer	Seller	Property Type	Value (EUR million)	Size (m2)	Yield (%)
1.	Simonkatu Parking	Helsinki Central	Keva	SRV	Parking	21.0	1,500	N/A
2.	Retail Center Arabia	Helsinki	Citycon	Tapiola	Retail	19.5	14,000	6.40 %
3.	Kumpulanhovi Office	Helsinki	Catella	Caryler	Office	17.5	5,500	N/A
4.	Kampin Luola Parking	Helsinki Central	Keva	SRV	Parking	10.5	500	N/A
5.	Two Warehouses	Helsinki	Private Investor	Valad	Industrial	5.0	N/A	N/A
6.	Leikosaari Retail	Helsinki	Private Investor	AKR Suomi	Office	1.35	578	N/A
7.	Retail Project	Espoo	Auratum	Procofin	Retail	N/A	2,800	N/A
8.	68 Retail Properties	All over Finland	Sveafastigheter	NIAM	Retail	N/A	80,000	N/A

Transaction Volume Quarterly | Finland



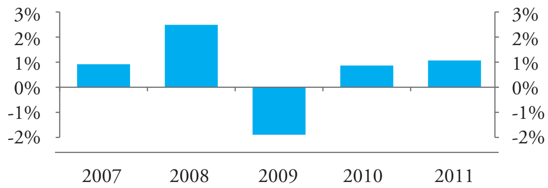
Source: Newsec

Greater Helsinki - Office



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

List of Office Projects - Top 5 - Finland - Q1 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	KOY Metsätapiola	Helsinki (Espoo)	Ripatti Oy	27,000	2011	2012
2.	Quartetto Business Campus	Helsinki (Espoo)	Hartela	14,000	2011	2012
3.	Innova 2	Jyväskylä	Technopolis	10,000	2011	2012
4.	Ratinankaari	Tampere	YIT	11,000	2011	2012
5.	Phase I (Safiiri Business Park)	Helsinki (Espoo)	YIT	9,000	2011	2012

List of Retail Projects - Top 5 - Finland - Q1 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	IKEA	Kuopio	IKEA	34,000	2011	2012
2.	City Center Expansion	Helsinki	Sponda Oyj	30,000	2011	2012
3.	Hämeenlinna Shopping Center	Hämeenlinna	NCC/City of Hämeenlinna	30,000	2012	2014
4.	Shopping Center Willa (phase 2)	Hyvinkää	Varma	12,000	2012	2012
5.	Myllypuro Retail Center	Helsinki	Citycon	7,000	2011	2012

before they are willing to initiate a project. Ongoing projects include a new office building, KOY Metsätapiola, that will be completed during 2012 in Espoo, near the upcoming metro line. Another example is Innova 2, a new office building in Jyväskylä near the Helsinki CBD. The project has progressed to the second stage of the office block. It is owned and developed by Technopolis Oy.

The new-construction projects that were completed during 2010 and 2011 added little volume, a result of the financial turmoil of 2008–2009. New construction planned for 2012 is at about the same level as during the two previous years, approximately 40,000 m2.

Quartetto Business Campus is a high-tech office building in Espoo. Quartetto Phase I is a combination of four five-story office buildings with a total area of 14,000 m2. The office and retail center Ratinankaari, located at the crossing of Hatanpää and Tampere main roads, has good public communications to Tampere city center. It has two separate office buildings, which are connected to each other by a sky bridge. The retail space is located in the ground floor.

The Occupier Market

The decrease in office rents during 2009 was temporary and in 2010–2011 rents increased. During 2012, Newsec estimates that rents will show a minor increase but overall will be fairly stable and thus in line with 2011 levels. In Helsinki CBD, prime rental levels are about EUR 335 per m2. 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 vacancy rates in the Helsinki Metropolitan Area during 2011 either decreased or were fairly stable. In Helsinki CBD, the vacancy rate is about 5.0%, indicating that the central area has kept its attractiveness. During 2012, vacancies in Helsinki CBD are expected to show a minor decrease, whereas 2013 is expected to see some increase due to tenant efforts from tenants to enhance the usage efficiency of office space and the construction of new office buildings.

The Retail Market

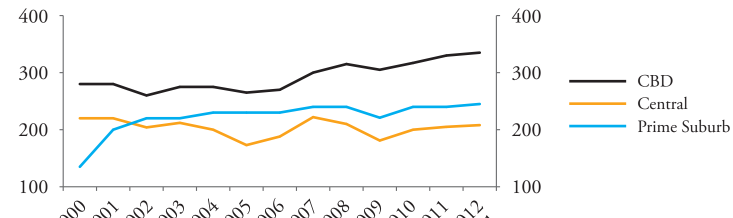
The total retail stock of the major Finnish cities comprises approximately 6.6 million m2. About 3.4 million m2 is located in the Helsinki Metropolitan Area. About 50% of the retail stock in the HMA is located in Helsinki and about one-quarter each in Espoo and Vantaa. Large stores have for a long time played a substantial role in the Finnish everyday commodity trade. The market share of stores larger than 1,000 m2 is approximately 65%, where 10% of all the stores are representing half of the total value of grocery trade.

Retail trade turnover in Finland has historically been quite strong. Combined with a good consumer confidence level and growth in private consumption, this has fueled further development. However, during fall 2011 retail trade turnover growth dropped below 1% due to a psychological effect on households that is clearly and largely related to the eurozone debt crisis.

New Supply

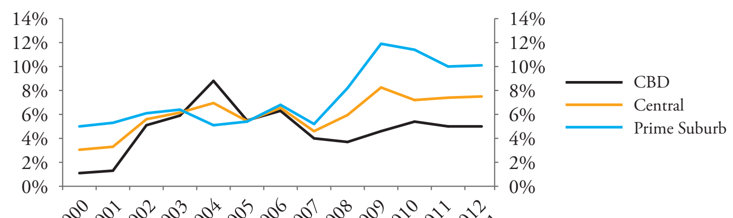
IKEA will open a store in Kuopio during summer 2012. The new retail premises are under construction in Matkus. In addition to IKEA, a new shopping center, developed by Ikano, has already partly opened on the site, under the same roof as IKEA. The IKEA/Ikano concept is the first of its kind in Finland. The IKEA store will comprise 34,000 m2, whereas the shopping center will comprise 45,000 m2. The City Center Expansion is a project in

Helsinki Office Rent (EUR/m2)



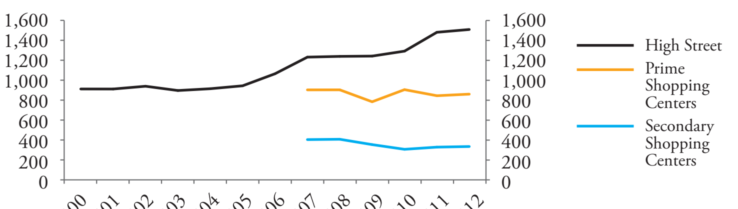
Source: Newsec

Helsinki Office Vacancy



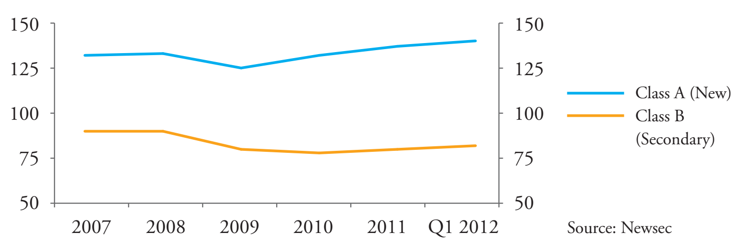
Source: Newsec

Helsinki Retail Rent (EUR/m2)



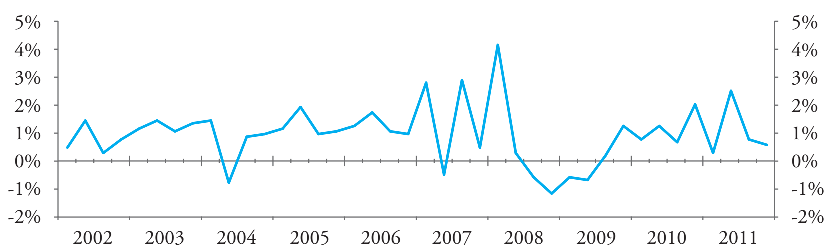
Source: Newsec

Helsinki Logistics Rent (EUR/m2)



Source: Newsec

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



Source: Eurostat

Helsinki CBD. The 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 the Helsinki CBD.

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. In the coming three years, a stable development or minor increase is expected.

The Logistics Market

Owner-occupation characterizes 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.

The Occupier Market

The rental level for prime logistics properties in Helsinki has experienced a slight increase during recent years. Currently, the rent level is about EUR 140 per m2. For prime logistics, the slight increase is partly the result of the demand for logistics properties in the new logistic areas of Vuosaari and Jätkäsaari. The years ahead, up to 2014, are expected to see a stable rent development for prime logistics properties. ■

NORWAY

Norway has a population close to 5.0 million, which has increased by an annual average of 1.3% 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 for the last five years. In 2010, 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 for many years. In December 2011, it stood at 3.3%, a decrease of 0.3% over December 2010.

The Investment Market

The transaction volume on the Norwegian property market during Q1 2012 was NOK 13 billion, a steep increase compared to the same period in 2011, when it was NOK 2.5 billion. 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 among investors. Several investors have bought commercial properties with the intention of converting them into residential properties. However, banks are reluctant to fund investments in the value-add sector, which has resulted in easier funding for core properties with long leases.

Oslo S Utvikling AS (OSU), the developer of DNB's new headquarters in Bjørvika, and DNB entered an agreement in January regarding an acquisition of the project on completion. The acquisition will be done through DNB Livsforsikring ASA and DNB Scandinavian Property Fund. The first of the three buildings, "the middle building", will be completed on 1 July 2012. DNB Bank is the lessee of all the buildings and the lease runs for 15 years from delivery, with an option to extend 5 + 5 years.

In January, Norwegian Property and KLP entered an agreement to perform a property swap that involves KLP's sections in Bryggetorget 1 at Aker Brygge ("Fondbygget") and C.J. Hambros plass 2 ("Ibsenkvartalet"), owned by Norwegian Property. The deal involves Norwegian Property acquiring KLP's sections in Bryggetorget 1 for NOK 620 million. Simultaneously, KLP will acquire the companies owning Ibsenkvartalet for a price of NOK 1,220 million. After completion of the transaction, Norwegian Property will own all office sections in Bryggetorget 1, corresponding to 35 of the total of 100 sections.

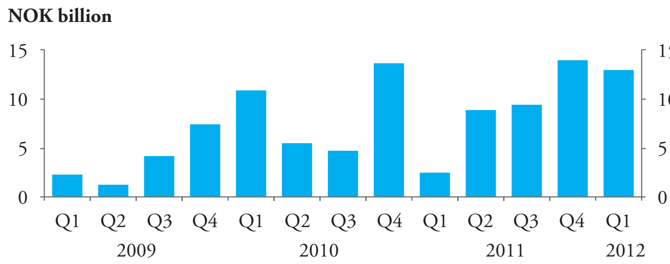
The Office Market

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.

List of Transactions - Top 5 - Greater Oslo Area - Q1 2012

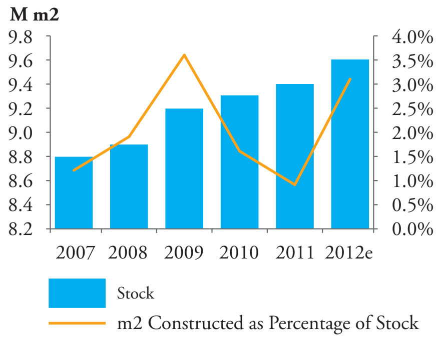
No.	Object	Location	Buyer	Seller	Property Type	Value (NOK million)	Size (m2)	Yield (%)
1.	Headquarters for DNB	Oslo (Bjørvika)	DNB Liv	OSU	Office	4,800	75,500	5.15 %
2.	Ibsenkvartalet	Oslo (Central)	KLP	Norwegian Property	Office	1,220	38,000	5.60 %
3.	Bryggetorget 1	Oslo (Aker Brygge)	Norwegian Property	KLP	Office	620	12,000	5.30 %
4.	Sørkedalsveien 8	Oslo (Majorstuen)	Stor-Oslo Eiendom	Statoil Pensjon	Office	380	14,000	7.80 %
5.	Bilia Oslo	Oslo	Aker	Orkla Eiendom	Retail and Office	175	N/A	N/A

Transaction Volume Quarterly | Norway



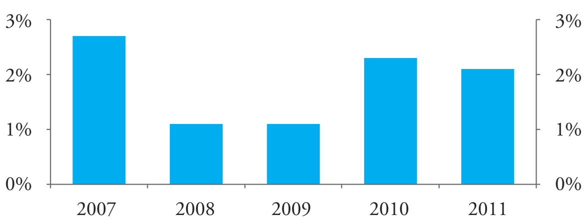
Source: Newsec

Greater Oslo - Office



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

List of Office Projects - Top 5 - Norway - Q1 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	New Headquarters for DNB	Oslo (Bjørvika)	OSU	80,000	2010	2012-2014
2.	New Office for Statoil	Oslo (Fornebu)	IT Fornebu	65,000	2011	2012
3.	Fornebu Technoport	Oslo (Fornebu)	KLP	36,500	2012	2014
4.	Lysaker Polaris	Oslo (Lysaker)	NCC	34,000	2012	2014
5.	New Office for Kongsberggruppen	Oslo (Asker)	Oxer Gruppen	33,000	2012	2013

List of Retail Projects - Top 5 - Norway - Q1 2012

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	Sørlandssenteret	Kristiansand	Olav Thon	73,000	2010	2013
2.	Steen & Strøm, Åsane senter	Bergen	Steen & Strøm & Nordea Liv	70,000	2010	2017
3.	Økernsenter	Oslo	Steen & Strøm	~ 60,000	2010	2017
4.	Jekta kjøpesenter	Tromsø	Coop Nord	~ 35,000	2010	2013
5.	KBS senteret	Trondheim	Riholding AS	30,000	2010	2012

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.

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 2014 and house 4,200 DNB employees. The new headquarters will be located in the middle of the new Opera district in Bjørvika, Oslo CBD.

IT Fornebu, developer of the former airport area Fornebu in the western part of Oslo, has commissioned Skanska to build the new headquarters for Statoil. The contract is 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 completion is expected in September 2012.

The Occupier Market

A relatively low amount of office space was constructed in Oslo in 2011 and a substantial proportion of the office projects estimated to be completed in 2012 is pre-let. Combined with the fact that companies demand highly space efficient offices, vacancies declined during 2011 and contributed to an upward pressure on rents. 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. 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.

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. The retail trade turnover has increased since, with only a minor slump in 2010.

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 take 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 an 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 60,000 m2 shopping center in Økern, Oslo. The project is one of the most ambitious urban development projects in Oslo and will in total comprise about 250,000 m2. Apart from the shopping center, 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 were stable during Q1 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 prime shopping centers. Due to the inherent stability of the Norweigan economy, fueled by the oil sector, Norway will stand tall against the forecast global recession. This will provide opportunities for continued rent increases during the next few years.

The Logistics Market

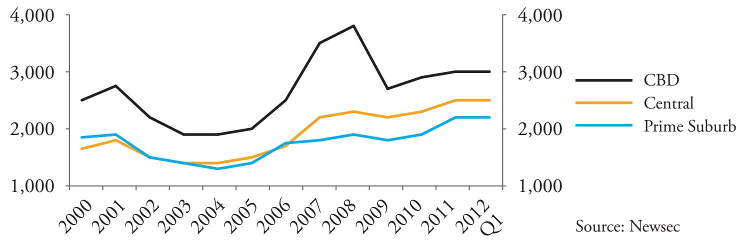
The demand for logistics facilities by operators in the greater Oslo area has been steady for a long time. The major operators, those who require larger logistics facilities, are in most cases located along the roads south towards mainland Europe and north of Oslo, where the roads leads into the interior 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 towards 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 within the Greater Oslo region is rare. Policymakers rather prefer residential or office areas. Hence, the demand for class A logistics properties in the proximity of transportation hubs is high, keeping rent levels up.

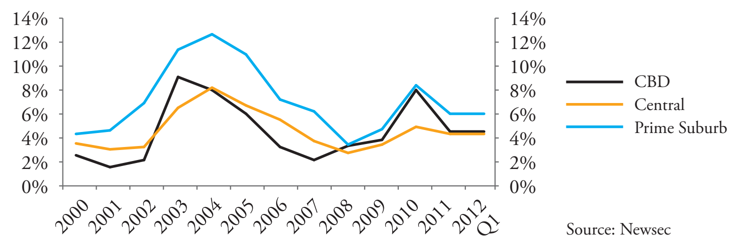
The cost of logistics accommodation in Norway is almost twice as high as it is in Sweden, which has led to an increasing number of operators considering moving their operations across the border. This, combined with competition between developers on lease contracts, has led to downward pressure on rental rates. ■

Oslo Office Rent (NOK/m2)



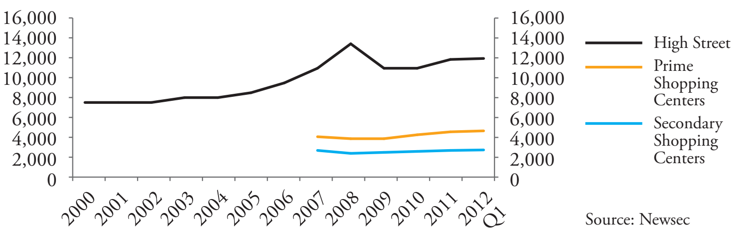
Source: Newsec

Oslo Office Vacancy



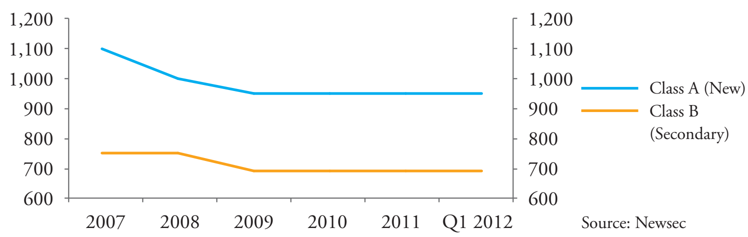
Source: Newsec

Oslo Retail Rent (NOK/m2)



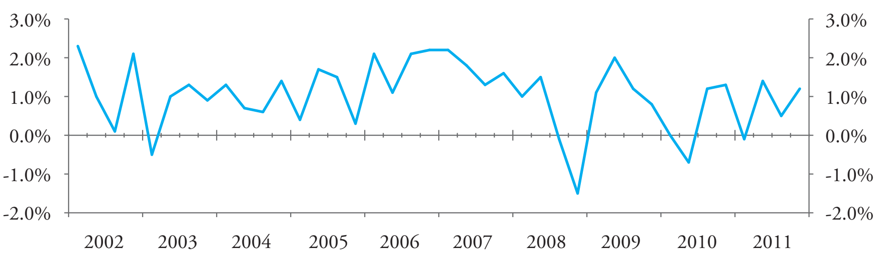
Source: Newsec

Oslo Logistics Rent (NOK/m2)



Source: Newsec

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



Source: Eurostat

DENMARK

Denmark has a population of around 5.6 million, which has increased on average by 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 has increased since 2008 and peaked in 2010 at 7.5%. Since then, the unemployment rate declined during 2011 and stood at 6.1% in December 2011.

The Investment Market

Liquidity on the Danish transaction market continued to be low in 2011, compared to the years before the financial turmoil 2008–2009, with a total volume of DKK 15 billion. At the end of 2010 and beginning of 2011, there were several large transactions that led to expectations of a recovering market. However, during the second half of 2011, investors became anxious due to 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 and this has resulted in difficulties for investors in obtaining financing. Liquidity in the first quarter of 2012 continued along the moderate trend observed in the last two quarters of 2011, and ended up at DKK 2.5 billion.

The Clipper House and Harbour House, containing among others the headquarters of the Danish shipping company Clipper, was sold in a sale-leaseback transaction in Q1 2012. The prime office buildings were sold to the institutional investor Danica Pension. Furthermore, a large portfolio of seven properties located in central Copenhagen was bought by Jeudan from EjendomsSelskabet Norden. The transaction included office, retail and residential units as well as a hotel. Brombærparken A-B, a newly-built residential property, was sold in February by Amagerbanken to the Danish property company West Coast Real Estate. Copenhagen is estimated to benefit from a good demographic development during the coming years, which will make residential properties more attractive for investors.

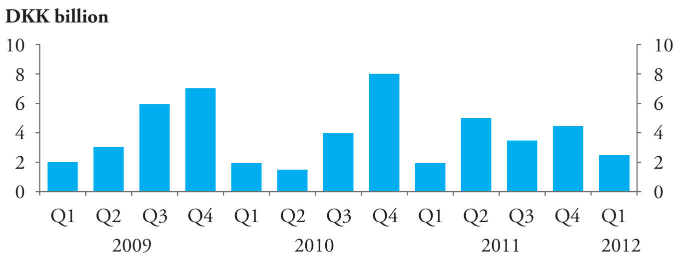
The Office Market

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 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 million m2.

List of Transactions - Top 5 - Greater Copenhagen Area - Q1 2012

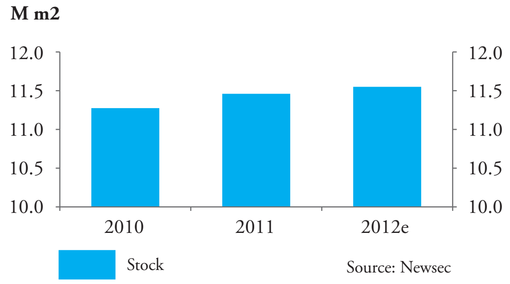
No.	Object	Location	Buyer	Seller	Property Type	Value (DKK million)	Size (m2)	Yield (%)
1.	Clipper & Harbour House	Copenhagen	Danica Pension	Clipper	Office	670	16,100	5.10 %
2.	Mixed Portfolio	Greater Copenhagen	Jeudan	EjendomsSel. Norden	Mixed	454	27,400	5.70 %
3.	Brombærparken A-B	Copenhagen	West Coast Real Estate	Amagerbanken	Residential	315	16,000	5.25 %
4.	Gyngemose Parkvej 34-46	Copenhagen (Søborg)	Patrizia Immobilen	De Københavnske Ejendoms-selskaber	Residential	215	10,500	5.00 %
5.	Købmagergade 24	Copenhagen	Saxo Properties	Private investor	Retail	131	1,550	5.20 %

Transaction Volume Quarterly | Denmark



Source: Newsec

Greater Copenhagen - Office



Source: Newsec

List of Office Projects - Top 5 - Denmark - Q1 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.	Scala	Copenhagen	EjendomsSelskabet	23,000	2012	2015
3.	Flintholm Company House	Frederiksberg	PKA	20,000	2010	2012
4.	ATP pakhus langelinie	Copenhagen	ATP	15,000	2012	2014
5.	Plaza	Copenhagen	Skanska	15,000	2012	2014

List of Retail Projects - Top 5 - Denmark - Q1 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.	Frederiksberg Centret	Copenhagen	Danica Pension	10,000	2012	2014
4.	Karlslunde Stationscenter	Greve	Sinai Group	6,000	2011	2012
5.	Aalborg Storcenter	Svendborg	ATP	3,000	2012	2013

New Supply

The uncertainty regarding the course of the overall economy in the next couple of years will place new construction under pressure. However, the population forecast for Copenhagen is strong - it is expected that the city will have 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 is approximately 100,000 m2. In 2013, the construction of new offices is expected to be slightly higher.

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 Scala, a landmark building now 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 23,000 m2 office building. A major part of the building is leased to Gorrissen Federspiel, a Danish corporate law firm. Another project is Flintholm Company House. The property is a multiuser office building where small companies rent office facilities and benefit from the shared canteen and meeting facilities. The building will be ready for tenants in Q2 2012 and will offer close to 20,000 m2 of office space.

The Occupier Market

In 2011, the occupier market in Copenhagen improved slightly and rent level in Copenhagen CBD increased. The office rent in Copenhagen CBD during 2009–2010 was about DKK 1,550 per m2, and during 2011 it rose to DKK 1,600 per m2. Newsec estimates that rental levels will stay relatively flat in the 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%. The vacancy rate still represents a surge of more than 5 percentage points from the low level of about 3% recorded in 2007, and is primarily attributable to the economic downturn. The first quarter of this year has shown a slight increase in the vacancy rate. This is mainly the result of the eurozone debt crisis that has led to a slightly increase in the unemployment rate.

The Retail Market

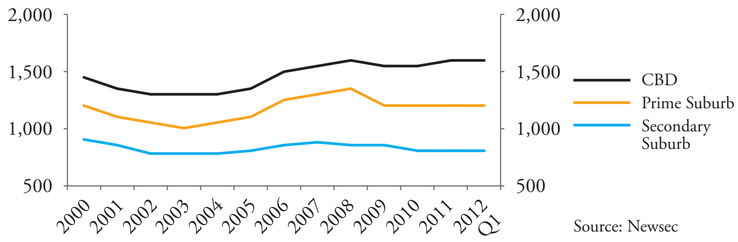
Tight legislation, regulating both the size and location of retail areas, is a characteristic of the Danish retail market. Therefore, Denmark has a large number of High Street or in-town shops and relatively few out-of-town shopping centers and retail parks. The total retail stock in Denmark stands at around 11.5 million m2, of which about 2.2 million m2 is located in the capital. More than half of Denmark's 100 largest shopping centers are also located in Greater Copenhagen.

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

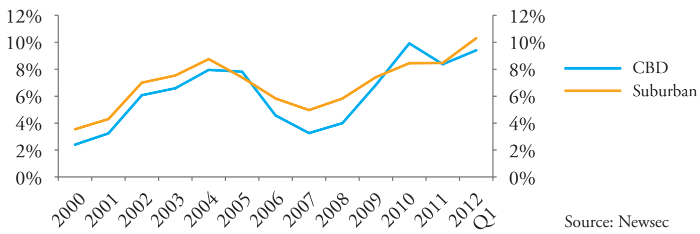
New Supply

The Norwegian developer Steen & Strøm is planning to build a shopping center, Slagterigrunden, in Odense CBD. The construction is planned to start during 2012 and the center will constitute about 45,000 m2. Another

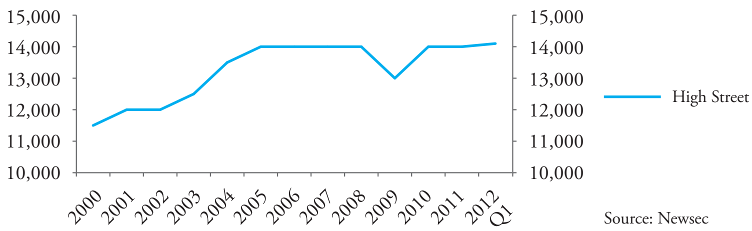
Copenhagen Office Rent (DKK/m2)



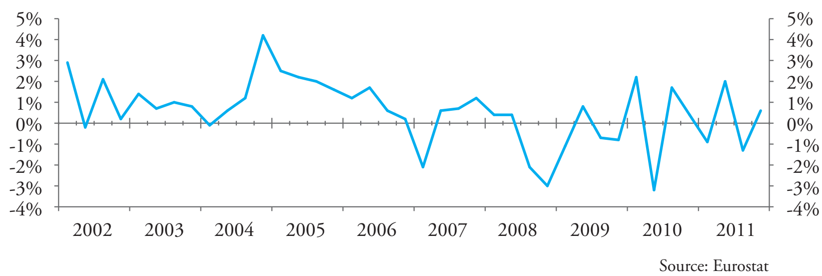
Copenhagen Office Vacancy



Copenhagen Retail Rent (DKK/m2)



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



project is City 2 – Designer Outlet. In addition to the large regional shopping center City 2 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. Frederiksberg Centret in Copenhagen will expand, with about 10,000 m2 of retail space and new parking facilities. The expansion will begin during 2012 and is expected to be completed in 2014.

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 and they have since stood at DKK 14,000 per m2, excluding operating costs and taxes. High Street rents are expected to remain relatively stable, with a small upward pressure in the coming three years, due to the lack of new development prospects 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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