

NORDIC INSIGHT

MARKET NEWS
AND VIEWS FOR
INSTITUTIONAL
INVESTORS

OCTOBER 2013

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October 1, 2013

Dear Reader,

In this edition of *Nordic Insight*, we revisit Europe's real estate debt dilemma. The combination of legacy loan books and new regulations is weighing on banks' ability to lend to real estate. The low availability and higher marginal cost of debt financing are presenting new opportunities for capital to find its way to the real estate market, but will it be enough to satisfy a growing demand?

Next, the Swedish law firm Mannheimer Swartling makes a guest appearance. Mannheimer Swartling presents the considerations ruling banks' choice of method to enforce security over Swedish properties. Possibly the most commonly used method for secured creditors to realize values in a property portfolio is enforcing share security. Why is this the case, and why do some lenders tend to enforce mortgage securities instead? What factors rule the choice of method, and can you ever be sure that you have made the right choice?

Finally, we present the current Swedish method for the taxation of carried interest. Recently, the Swedish Tax Agency won a high-profile lawsuit against NC Advisory, the general partner of the Swedish private equity firm Nordic Capital, resulting in NC Advisory having to pay USD 110 million for unpaid social fees and employment taxes. The case against NC Advisory is just the first in a series of cases involving Swedish private equity firms that have been launched by the Swedish Tax Agency, and more will follow. How will this, potentially precedential, ruling affect NC Advisory, other private equity firms and the real estate market as a whole?

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

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

Best regards

A handwritten signature in blue ink, appearing to read "D. Neil".

David C. Neil
CEO
Genesta Property Nordic

EUROPE'S

REAL ESTATE DEBT DILEMMA –

CAN GROWTH IN

NON-BANK

LENDING SOLVE IT?

The scale of legacy loan books together with regulatory change has created challenges for European balance-sheet lenders. Historically accounting for between 75% and 95% of European real estate lending, bank lenders are under increasing pressure to deleverage and repair balance sheets. EU regulation Basel III directly impacts on bank lending by introducing tighter liquidity and funding requirements with the aim of strengthening banks' resilience to periods of market liquidity stress. In determining solvency ratios, the new regulation introduces risk weighting for assets. As an asset class, real estate is subject to a relatively high risk weighting, resulting in a higher cost of capital.

The low availability and higher marginal cost of debt finance has attracted new sources of capital to the market. However, it is unclear whether this increased diversification of the debt market will be sufficient in either scale or risk appetite to satisfy existing demand.

Legacy Loan Books – The Scale of the Problem

An estimated EUR 2 trillion of real estate debt is held by banks and other financial institutions, with approximately 50% requiring refinancing by the end of 2015¹. The majority of this

debt is legacy loans in breach of their initial loan-to-value (LTV) covenants, given value decline since the market peak. The strong value recovery for prime assets in core markets masks the decline in values beyond this narrow segment of the market. Indeed, the continued weakness in the wider European economy is manifest in occupier markets, with weak demand beyond prime and rising tenant failure. This deterioration in the income profile of standing assets results in further value decline. Worse still, while LTV thresholds have been edging upward, current lending criteria remain considerably tighter. Across bank lenders, current LTV thresholds average 65% for senior debt on a prime office asset in a core market, some 20% lower than at the market peak. Moreover, appetite among bank lenders for stretched senior, junior and mezzanine finance has been limited since the onset of the crisis. Fewer than 5% of bank lenders are prepared to offer finance beyond senior debt and again LTVs remain considerably lower than those available pre-crisis. As a result, required equity for real estate investing has doubled from pre- to post-crisis. This shortfall between current value, outstanding debt and current LTV thresholds presents a refinancing gap for Europe currently estimated at USD 77 billion².

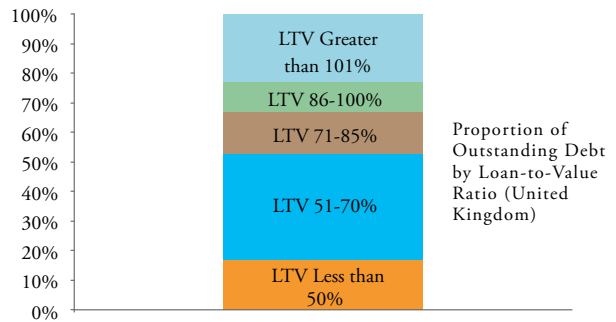
¹ DTZ (2013), *Money into Property, Europe*, May; Maxted, B and Porter, T (2013), *The UK Commercial Property Lending Market*, IPF Focus, July

² DTZ (2013), *Net Debt Funding Gap*, June

A detailed survey of 87 European and US lenders active in the United Kingdom indicates that nearly 47% of outstanding debt has a current LTV in excess of new lending criteria (see *Chart 1*)³. Similarly, only 35% has an interest coverage ratio in excess of the 1.6 multiple required under current lending criteria. The survey analysis indicates that lending criteria and terms are considerably more stringent for non-prime assets and/or non-core markets, as evidenced in lower LTV thresholds, higher interest rate coverage requirements and higher interest rate margins. Thus, the debt funding gap is concentrated in non-prime assets, given their greater value deterioration and stricter lending criteria. Indeed, approximately half of bank lenders are not lending against non-prime assets and/or non-prime locations in Europe (see *Chart 3*). This reflects the efforts by banks to strengthen balance sheets by improving the quality of loan books in terms of both the underlying assets and the creditworthiness of borrowers. The introduction of risk weighting assets within Basel III accelerates this trend. DTZ estimates that regulatory pressures create a further funding gap of USD 86 billion, amounting to a gross debt funding gap of USD 163 billion.

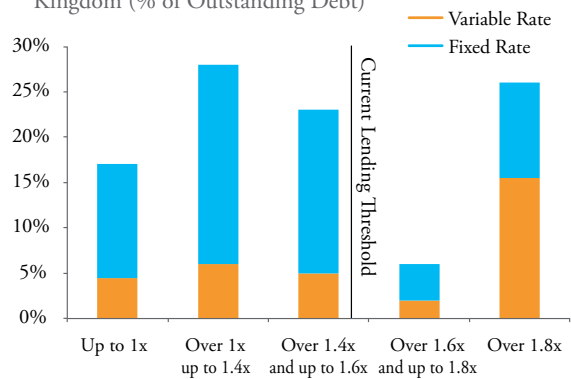
Given the inability of borrowers to refinance higher-leveraged assets at loan maturity, lenders have continued to extend otherwise performing legacy loans since the crisis, usually for periods of between two and four years. As a result, the profile of loan maturities is increasingly skewed toward the near term, making the process of bank deleveraging slow and labored. This inertia has limited the capacity for banks to engage in new lending. It has also impeded progress in improving the quality, not

Chart 1: Existing LTVs Exceed Current Lending Threshold



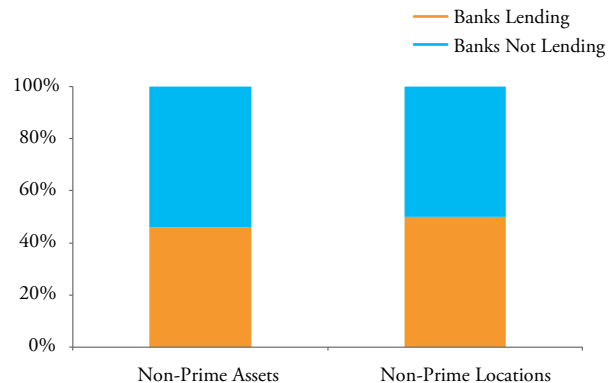
Source: Maxted, B and Porter, T (2013)

Chart 2: Current Income to Interest Cover Ratio, United Kingdom (% of Outstanding Debt)



Source: Maxted, B and Porter, T (2013)

Chart 3: Bank Lenders Remain Risk Averse



Source: DTZ (2013)

merely the quantity, of bank balance sheets. However, new regulatory pressures are providing bank lenders with the impetus to restructure loan books and focus their attention on impaired loans, particularly those in breach of financial covenants.

Since the onset of the financial crisis, approximately 50% of the reduction in outstanding bank debt has been achieved by early or scheduled repayments, principally secured on lower-leverage, high quality assets. A further 20% is contributed by the sale of loan books, while 25% represents write-downs. The remaining 5% represents repossessions and workouts⁴. The sale of non-performing loans has accelerated since mid-2012 due to the interaction of three factors. First, regulatory pressures are focusing banks on strengthening their balance sheets, liquidity requirements and profitability. Second, debt maturity profiles are front-loaded, with a quarter of debt outstanding due to expire over 2013 and a further quarter over 2014/2015. Third, while the rate of overall loan impairment is reducing, the number and value of loans actually in default has been increasing as a result of weakening cashflows (*see Chart 4*). Carrying a higher risk weighting, such non-performing loans reduce profitability, given the higher ratio of liquid (and lower-return) assets required to be secured against them, as well as the higher costs of management involved. In short, the sale of non-performing loans will strengthen the financial position of banks. However, their sale is at a substantial discount to the face value of loans. Cleaning up balance sheets requires banks to realize losses that will reduce profits, capital and the capacity for new lending in the short term.

Given the dominance of bank lenders in the European debt market, this suggests a significant imbalance between the demand and supply of debt capital. This disequilibrium has facilitated the emergence of new market entrants and the growth of alternative funding solutions. However, there is uncertainty as to whether the scale and/or risk appetite of available sources of capital is sufficient to provide either a temporary or permanent solution to Europe's debt funding dilemma.

Sources of Debt Capital Bank Lending

While the size of European bank loan books declined over 2012, new lending increased marginally over the year. Detailed analysis of the UK market suggests that 65% of reductions were due to the scheduled or early repayment of loans. However, the contribution of loan book sales accelerated sharply over the year, accounting for 8% of reductions⁵. It is perhaps unsurprising that lending during the year failed to outweigh repayments. The need to refinance and/or extend existing loans continues to absorb a large proportion of available capital among UK lenders (63%); however, it is much less marked among German (15%) and other international bank lenders (18%)⁶. Importantly, bank lending remains the largest source of debt capital, accounting for 84% of new lending.

Bank lenders expect their European loan books to grow modestly over 2013. However, it is worth noting that in the United Kingdom achieved lending volumes for 2012 were lower than forecast by bank lenders. While expectations are for growth over 2013, new lending projections are lower than initially targeted for 2012 (*see Chart 6*).

³ DMU (2013), Commercial Property Lending Report, May

⁴ Ernst & Young (2013), Flocking to Europe, Real Estate Non-Performing Loan Report

⁵ Macted, B and Porter, T (2013), *The UK Commercial Property Lending Market*, IPF Focus, July

⁶ Real Estate Lending Forum (2013), Lending Intentions Survey, March

This reflects the more stringent and extensive lending criteria adopted by bank lenders in respect of both the asset (location, quality, income profile) and the borrower (creditworthiness, track record, wider relationship with the bank) (see Chart 7).

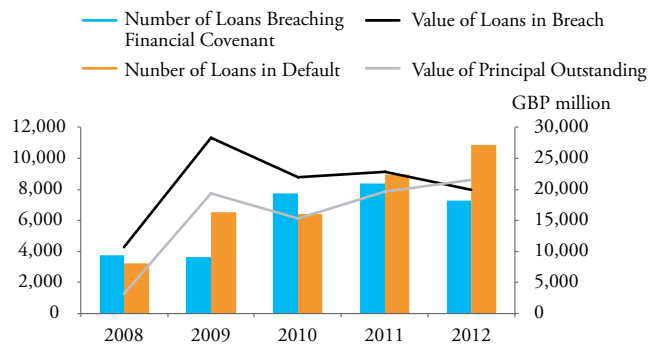
These narrow criteria limit the number of lending opportunities deemed appropriate. Given increasing competition among lenders for low-risk deals, available debt capital in this discrete segment exceeds demand. This has led to a marginal softening of lending terms. Reported LTVs edged upward over 2012, while interest rate margins posted their first decline since the end of 2006. However, the spread between margins for prime, income-secure assets in core locations and non-prime increased yet further. This is particularly marked in regard to non-speculative development, for which margins increased.

Insurance Companies

Insurance companies and other institutions have played a significant role in the US lending market, accounting for a fifth of outstanding debt. This compares to less than 1% within Europe, where their contribution has been more marginal and concentrated in the United Kingdom⁷. However, the attractiveness of available margins has resulted in an upswing in activity.

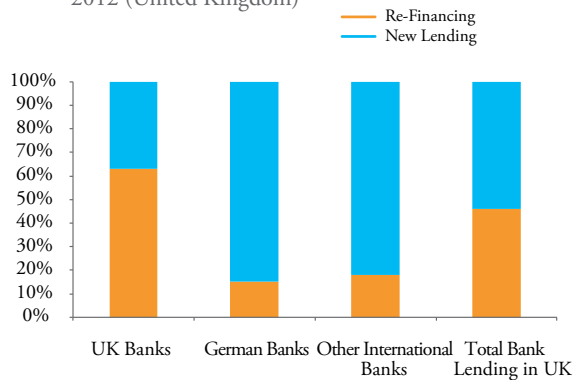
This comprises emergent activity from European life insurers new to the real estate debt market and from North American insurers new to Europe. While activity has increased across Europe, it remains concentrated in the UK market, where insurance companies accounted for 10% of all new lending over 2012⁸. This reflects a

Chart 4: Loan Defaults Are Rising (United Kingdom)



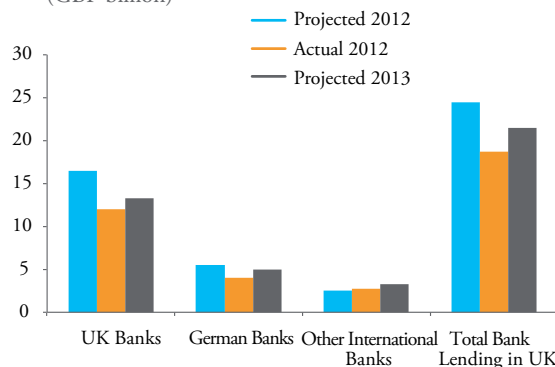
Source: DMU (2013)

Chart 5: Re-Financing as % of Bank Lending, 2012 (United Kingdom)



Source: Real Estate Lending Forum (2013)

Chart 6: Projected versus Actual Lending Intentions (GBP billion)



Source: Real Estate Lending Forum (2013)

number of interrelated factors. First, insurance companies have a low risk appetite, which narrows their focus to prime, income-secure assets in a limited number of perceived safe-haven markets (the United Kingdom, Germany, France, Sweden and Norway). Second, insurance companies favor longer duration loans of at least ten years, better enabling liability matching and

“INSURANCE COMPANIES AND OTHER INSTITUTIONS HAVE PLAYED A SIGNIFICANT ROLE IN THE US LENDING MARKET, ACCOUNTING FOR A FIFTH OF OUTSTANDING DEBT.”

this is arguably supported by the institutional lease structure prevalent in the United Kingdom. Third, while the German market affords the duality of market scale and economic stability, the Pfandbrief market has remained active as a source of relatively cheap capital for low-risk assets, lowering potential margins and profitability for insurers. Similarly, the Nordic banks are less exposed to bad debt and are well capitalized (*see Chart 8*). After a brief hiatus during 2012, the majority of banks in the Nordic region have renewed lending activity, but this remains limited to low-risk opportunities. Given the constraints on new bank lending capacity elsewhere and an absence of legacy loans among insurance companies, insurers are forecast to double their market share of the real estate debt market by the end of 2015⁹. However, their risk appetite is expected to remain low.

Non-Listed Debt Funds

Following their early emergence in the wake of the financial crisis, debt funds are now maturing into a more established, if diverse, sector. Since 2008, EUR 3.2 billion of capital was raised across 12 funds (*see Chart 9*). At mid-2013, there were a further 19 debt funds in the market, seeking to raise a total of EUR 10 billion¹⁰. This represents an almost three-fold increase in the number of funds and a four-fold increase in the aggregate capital targeted since mid-2012. This excludes distressed debt funds, which tend to pursue a buy-loan-books-to-own-assets strategy rather than establish themselves as a source of lending.

Debt funds offer a varied product range within the capital stack. Senior debt funds represent the largest slice of capital, while junior and mezzanine debt account for a larger number of funds. While the market is expected to continue to grow, its share of the European debt market remains low as a proportion of outstanding debt (less than 0.2%). However, together with insurance companies their market share is expected to increase. Such non-bank lenders increased new lending by some 80% over 2012 in stark contrast to the 0.1% achieved by bank lenders¹¹.

Nevertheless, the market faces two major challenges. First, the capital-raising market remains highly competitive and its continued growth relies on current margins being sustainable. Second, the availability of suitable product is scarce. Alongside bank lenders and insurers, senior and mezzanine debt funds are seeking to minimize risk by lending on low-risk assets, in low-risk markets, with low-risk borrowers.

⁷ DTZ (2013), *Money into Property, Europe*, May

⁸ Real Estate Lending Forum (2013), *Lending Intentions Survey*, March

⁹ INREV (2012), *European Real Estate Debt Fund Study*, October

¹⁰ Preqin (2013), *Europe Focused Real Estate Debt Fund Activity*, May

¹¹ DTZ (2013), *Money into Property, Europe*, May

Corporate Bonds

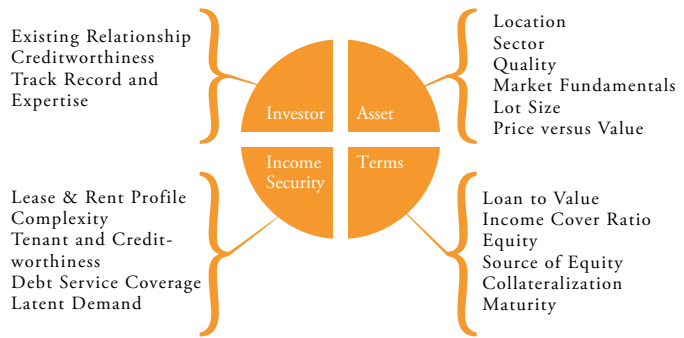
Faced with the virtual absence of development finance and the escalating cost of restructuring existing loans, private property companies have focused raising capital through the corporate bond market. Since 2011, more than EUR 25 billion of bonds has been issued by European property companies. As well as providing operational equity, it has also facilitated the repayment of existing debt, in turn reducing outstanding bank debt. Given historically low government bond rates in safe-haven markets, fixed income investors searching for yield have driven down the cost of corporate borrowing. Of course, fixed income investors are also focused on minimizing risk and having a strong financial balance sheet is a pre-requisite to market entry. The most active corporate bond markets are in the United Kingdom, Germany and the Nordics.

Will Alternative Sources of Debt Capital Solve Europe's Debt Hangover?

Of the banks whose real estate loan books remain open, the majority are indicating their intention to increase new lending over the short term. However, their return will be gradual and their focus will remain on improving the quality of loan books by limiting lending activity to low-risk opportunities. Of course, this creates a conundrum, as the majority of even performing legacy loans does not meet this criterion.

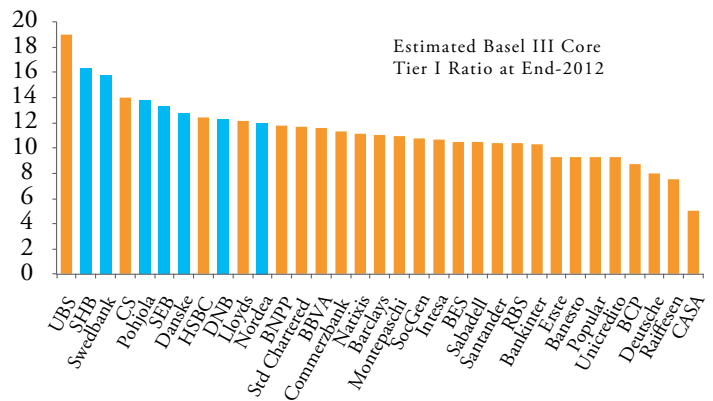
The growth in alternative sources of capital ostensibly provides a solution. Non-bank lenders are estimated to have the capacity to lend up to USD 181 billion over the next three years¹². However, their lending strategies reflect those of bank lenders, with a focus on low-risk assets and borrowers in low-risk markets. At a country level,

Chart 7: Current Lending Criteria



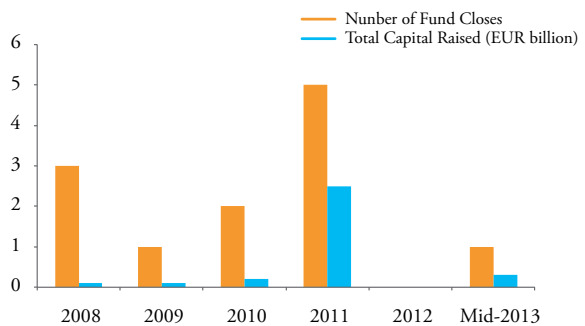
Source: Genesta (2013)

Chart 8: Nordic Banks Are Well Capitalized to Meet Basel III Tier 1 Requirements



Source: J P Morgan Equity Research

Chart 9: Non-Listed Real Estate Debt Fund Closures in Europe



Source: Preqin (2013)

the United Kingdom, France, Germany, Sweden, Norway and Finland are expected to benefit from an excess of lending capacity, while Spain, Italy, Ireland and, to a lesser extent, Denmark and the Netherlands will suffer from a continued scarcity of capital. Indeed, both bank and non-bank lenders have commented that the scarcity and competition for appropriate, low-

While new sources of debt capital are welcome, they are unlikely to provide a solution to Europe's real estate debt dilemma in the short to medium term. However, increased competition is putting downward pressure on lending margins within the narrow segment of opportunities targeted by all lenders. This may result in the withdrawal of additional bank lenders and/or a retreat of new market entrants if capital is unable to be deployed at required risk-adjusted returns. More positively, it could provide the impetus for more yield-hungry investors to broaden the scope of lending strategies to include non-prime locations and/or non-prime assets in core markets, or prime assets in non-core markets. Any redeployment of capital away from core investing is likely to require evidence of a sustained recovery in the underlying real estate fundamentals of non-prime markets. As such, core countries such as Sweden, Norway, Germany and, to a lesser extent, the United Kingdom are expected once again to be the early beneficiaries of any increase in investors' risk appetite. ■

“THE GROWTH IN ALTERNATIVE
SOURCES OF CAPITAL
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risk lending opportunities resulted in lending levels for 2012 falling below their target levels. Yet, to date, lenders have been reluctant to re-deploy capital beyond prime, income-secure assets. To date, the emergence of new lenders has further widened the gap in the availability and cost of capital between low-risk and higher-risk profile lending demand.

Looking forward, good quality assets in non-prime locations in tier 1 cities, or prime locations in second-tier cities, are expected to benefit from some re-allocation of debt capital. However, this will be limited to income-secure assets, in markets already in recovery. Such loans will carry higher margins and lower loan-to-value thresholds.

¹² DTZ (2013), Net Debt Funding Gap, June

A STARK CHOICE— ENFORCING SECURITY OVER SWEDISH PROPERTIES FROM A BANK'S PERSPECTIVE

Bank-financed property portfolios on the Swedish market are usually secured by both share pledges over the shares in the property-owning companies and by mortgages over the real estate assets. Possibly the most commonly used method for a secured creditor to realize the value in a property portfolio is the seemingly most accessible one, namely enforcing the share security. Even so, the choice is not clear cut and some lenders tend to enforce the mortgage security instead. In this article, we will explore the factors ruling the choice of method to enforce security.

Portfolio Structures and Financing

Investments in Swedish properties are normally structured through Swedish limited liability companies. Somewhat simplified, a standard portfolio is structured through a Swedish or

non-resident holding company holding one or several Swedish limited liability companies, which in turn own one or more properties.

On the debt side, in order to place the bank debt as close to the assets as possible, the lending bank will prefer to structure the financing so as to ensure that all bank debt is extended to the property-owning companies. It may be that loans are also extended to the holding companies, but normally only if security is granted over the corresponding intra-group loans made available to the property-owning companies in addition to the property mortgages. The security package in a “standard” portfolio typically consists of share pledges over the shares in the property-owning companies (and, as relevant, the holding company) and mortgages over the properties, securing at least

the allocated loan amount to the relevant property company. Ancillary security is often also taken over the few other assets owned by the single purpose property-owning vehicles, such as bank accounts and proceeds of insurances.

The Alternatives

Enforcing a “standard” portfolio with the objective of obtaining the economic interest in the properties is normally done by enforcing pledges over the shares in the property-owning companies or holding company, as applicable, enforcing the mortgages over the real properties, or a combination thereof. The bank could also enforce other security interests, such as security over bank accounts. However, since security of such kind is of an ancillary nature, the secured creditor will not in an enforcement obtain an economic interest in the properties but at best only improve its rate of recovery.

Why is it More Convenient to Enforce Share Security (Than Mortgage Security)?

Enforcement of security over shares in Swedish limited liability companies can essentially take place through appropriation of the shares (ie. the bank assumes ownership of the shares) or by way of a private or public auction. Enforcement of share security can be done without the involvement of any public authority or other third parties. As holder of the share certificates in the property-owning companies under the share pledge agreements, and with the authorization therein, the bank can enforce the security and transfer the ownership, provided that a continuing event of default under the loan agreement is outstanding. The bank may be under an obligation to notify the relevant pledgor prior to taking such action, but in practice

the enforcement can take place more or less instantly. Thus, enforcement of share security is a relatively swift and uncomplicated process; particularly in light of the alternative – enforcing the mortgage security – which is structured through a forced sale of the properties with the assistance of the Swedish Enforcement Authority. The forced sale process may take considerable time and, compared to a non-distressed disposal, lower sales proceeds can generally be expected. Also, to enforce the mortgage security the bank will need to obtain a judgment claim, which requires litigation if the property-owning company challenges the underlying debt. It is difficult to estimate the time needed for a court proceeding, but the first instance (of a maximum of three) may take a year or more. Thus, enforcement of mortgage security can easily be lengthily obstructed and delayed by the pledgor. Another negative aspect with enforcement of mortgage security is that it will trigger a stamp duty of 4.25% on the purchase price as title to the real properties, and not the shares in the property-owning companies, are transferred. Such stamp duty is typically paid by the purchaser but will naturally affect the consideration that a purchaser is willing to pay for the real properties.

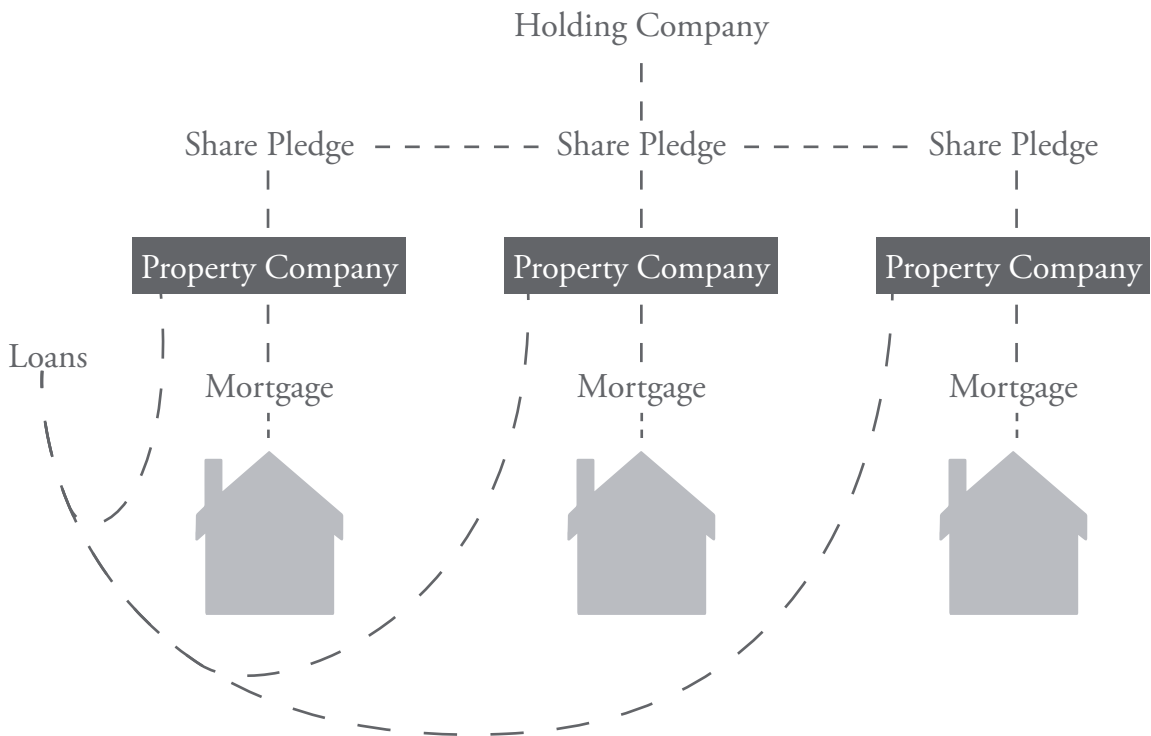
The Downsides with Share Security

Looking to the more fundamental characteristics of the two alternatives, one quickly jumps to the conclusion that enforcement of the share security is the preferred alternative. There are, however, certain elevated risks and other concerns associated with enforcement of share security that may affect the bank’s decision on choice of enforcement method. Foremost, the bank will in the case of enforcement of share

security have a duty of care. In short, the duty of care imposes an obligation on the secured creditor to use reasonable efforts to get the best possible price when enforcing the secured assets. In relation to private or public auctions, the pledgor could for instance claim that the sale should have been arranged differently, that the potential investors should have been given further time to inspect and evaluate the properties, that additional investors should have been invited in the process (unless the sale is by way of a public auction) or that the investors should have been given more information about the assets at sale. To summarize, there is a requirement that the sale process is structured and conducted in an appropriate way. Moreover, should the bank elect to appropriate the shares or sell them to a company owned or controlled by the bank (other than in connection with a duly structured auction), it would most likely be under an obligation to obtain a third-party valuation of the shares and, if such valua-

tion would indicate that the value of the shares is greater than the outstanding loans, account to the pledgor for the surplus. Unless it is clear that the value of the underlying asset is less than the outstanding loans, this obligation will often deter a secured creditor from appropriating the shares. It should also be noted that, although the take is highly questionable, there are scholars who argue that appropriation of shares under such circumstances is void under Swedish law. The risk of litigation can therefore not be disregarded.

Consequently, there are risks associated with the enforcement of shares that makes this alternative less attractive than one may have initially thought. In reality, the various risks may however not be of great concern where it is clear that the loans exceed the value of the portfolio. In such a scenario, the owners would not only need to prove that the bank has breached its duty of care, but also that the value of the assets exceeded



the loans, thus establishing a loss suffered by the owners as a result of the breach. However, a further concern for the bank is that in many cases it has only limited information about the property-owning companies. The lack of information not only makes it difficult for the bank to arrange a proper sale process, but may also have a negative impact on the price that a third-party purchaser is willing to pay for the assets. In essence, the purchaser's information about the asset at sale will be limited and the bank will be unwilling to make any representations or give any warranties under the sale agreement. It may also be that there are known exposures in the property-owning companies, such as intra-group debts, that further reduce their value. Consequently, it may in practice be that the secured creditor will obtain a lower price for the assets through enforcement of share security than through enforcement of mortgage security.

There are occasionally also other factors persuading the secured creditor to enforce mortgage security instead of share security. An example of this can be that a creditor may prefer to distance itself from the sale process, or to exclude certain lease agreements (which under some circumstances could be achieved in connection with a foreclosure of the properties), or that for some reason it is precluded from disclosing information about the property-owning companies.

So - What is the Best Alternative?

It follows that an article of this nature cannot cover all aspects that ought to be considered in an actual enforcement situation and that the portfolio structure at hand may add further complexity. Even so, the bank will in theory seek to choose the enforcement method that it predicts will result in the highest recovery rate of its loans. If it predicts that one alternative will result in a recovery rate of 90%, and the other in a rate of 80%, the bank will clearly choose the method that results in the higher recovery rate, provided that the risks and negative aspects associated therewith do not outweigh the upside. In practice, evaluating these situations is normally a dire task for the bank. From the bank's perspective, it is faced with two defective alternatives, needing to choose one, without being certain which will result in a better recovery. In this situation, one would think that there must be a good environment or would be a willingness to find an amicable solution. Assuming that a non-distressed sale would result in a comparatively higher purchase price for the assets, which usually should be a fair assumption, there should be a relative profit that could be shared between the bank and the owners. In reality, a voluntary sale is therefore perhaps the better alternative and in practice the enforcement method most commonly used on the Swedish market. ■

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THE TAXATION OF CARRIED INTEREST IN SWEDEN

WHAT DO THE CHANGES MEAN, AND ARE THEY HERE TO STAY?

NC Advisory, the general partner of Swedish private equity firm Nordic Capital, recently suffered a setback when the Swedish district administrative court ruled that it had to pay an outstanding amount of USD 110 million for unpaid social security contributions and employment taxes. The court ruled that the remuneration paid since 2007 as carried interest from the limited partner to the general partner should, on receipt by the firm's partners and employees, be viewed as income from employment rather than as income from capital gains, contrary to what has been the previous consensus both in Sweden and internationally.

The court's ruling will be precedential and will give the Swedish Tax Agency an opportunity to not only increase taxation for general partners, but for individuals as well. The capital gains tax rate in Sweden is currently 30%, while income tax for the majority of investment manager employees is around 56%. Due to Swedish rules on the limitation of claims, the court could only require that the general partner should repay unpaid social fees and employment taxes for the past five years (thus backtracking to taxation year 2007). It is clear, though, that the Swedish Tax

Agency's assertion is that its claims are grounded also for longer periods before then. The Swedish Tax Agency has confirmed that NC Advisory is only the first in a long line of general partners to be targeted. If NC Advisory's expected appeal is unsuccessful, we can expect to see several similar cases, resulting in considerable tax increases for investment managers and their employees.

Why Capital Gains?

The case for treating the income as capital gains, as argued by NC Advisory and other general partners, is that fund managers usually commit their own capital and that carried interest represents a part of a manager's return on an investment. Carried interest is paid under profit-sharing agreements where a predetermined share of the investment profit decides the amount of carried interest. The size of the carried interest is based on the value of the fund and is not a result of an investment manager's performance. Hence, it has been argued that taxation should be levied as income from capital gains rather than as income from employment. NC Advisory also argues that it never comes into possession of any of the funds paid as carried interest. Therefore, and since the agency has no legal basis to tax car-

ried interest as income tax, it should not be taxed as such.

Why Income from Employment?

The Swedish Tax Agency, conversely, argues that there is an insufficient link between an investment manager's pay-off and the risk taken. Even though general partners invest on equal terms as limited partners, the general partner enjoys a larger portion of the return (usually only above certain threshold values). The court argues that the only evident reason why general partners should receive a larger portion of the return of the investment relates to work performance rather than to the capital it has committed. The expertise and work effort of the investment manager results in an increase in the value of the portfolio. Therefore, tax should be based on the rates applicable to income from employment.

Result of Changing the Tax Treatment of Carried Interest

While many parts of Europe are still struggling, Sweden has been an attractive market for international investors. But among legal experts there are concerns about the uncertainty on how the returns on investments will be taxed. This uncertainty, coupled with the newly imposed restrictions on deducting losses from intra-group loans, will almost certainly lower Sweden's competitiveness. Moreover, how will the higher level of taxation of investment managers play on the international market?

Treating carried interest as income from employment and thus increasing taxation could result in a crowding out of transactions that are no longer acceptably profitable, given the new taxation levels. Moreover, higher taxes may persuade talented investment managers to relocate to more lucrative profes-

sions. Fewer transactions would have an adverse impact on the transaction industry as a whole, including reduced workloads for attorneys, for example.

The relationship between general partners and limited partners might be altered in an effort to minimize the taxation exposure. Any future fund structures will probably not be as efficient as the current – if they were, we would expect to see such structures today. It is possible that future structures will raise management costs for investors. Will general partners find a way around the increased taxation or will they shift the extra cost over to their limited partners, and, if so, how much of it? Whatever the outcome, the uncertainty is clearly problematic for investment managers and investors alike.

Not Yet Decided

Even though it is widely expected that the Swedish Supreme Administrative Court eventually will overrule the aforementioned ruling (thus leaving NC Advisory as victors in this battle), it is obvious that the question is a hot potato among politicians and that the question will remain on the agenda going forward. ■

SWEDEN

The initial flash estimate of Q2 2013 GDP growth in Sweden indicates that the economy stagnated over Q2, contracting by 0.1% on a quarterly basis, although delivering 0.6% growth year-on-year. While low growth was anticipated, given weak export and investment demand, growth was somewhat lower than the 0.3% forecast by the Riksbank. The flash estimate is, of course, uncertain and not overly concerning in the context of aggregate positive growth for H1 2013. However, it is the components of growth that are surprising. Both private consumption and exports disappointed over the quarter. In particular, stronger household spending is required to provide the engine for economic growth in the near term. On an annual basis, GDP growth has been slightly downgraded to 1.2% for 2013, but growth is recaptured in 2014, with expectations marginally increasing to 2.6%, accelerating to 3.2% in 2014¹ (*see Chart 1*). This is supported by both fundamentals and more recent data, which point toward a stronger H2 for 2013.

Household finances remain exceptionally strong and are continuing to grow. Low inflation and rising wages result in real incomes increasing by 3% per year in 2013 and 2014². In addition, expansionary fiscal policy and low interest rates support disposable incomes, while household wealth benefits from a buoyant stock market and house price trends. In 2014, household income will benefit more directly from an expansionary fiscal policy that is expected to include tax cuts. Savings rates are at a record high, enabling increased spending despite a high unemployment rate.

Indeed, employment growth has surprised on the upside, given rising unemployment (*see Chart 2*). In part, this is due to more flexible working practices that have resulted in a decline

in capacity utilization, reducing layoffs. However, growth in labor supply is outpacing employment growth, as government measures to curb sick leave and reduce early retirement take effect. The increasing labor participation of those outside the official labor supply – that is, people above the official retirement age – is also contributing to the anomaly. The employment rate of those aged 65-74 has increased by 50% to 15% since 2007 and accounts for 43% of employment growth over the same period³. House price growth has slowed since the beginning of the year, reducing the risk of a market decline (*see Chart 3*). On an annual basis, prices increased by 3% in the period May to July, but less than 2% over H1 2013⁴. SEB's forward looking house price indicator for August indicates that this upward trend is expected to continue. This is supported by a shortfall in supply, notably in the Greater Stockholm area.

Given the strength of household finances, the resilience of the labor market and the stability of the housing market, consumer confidence rose sharply in July (*see Chart 4*). Importantly, this translated into an uptick in the three-month moving average retail sales in June and July on a monthly and annual basis, following weak sales in April and May. Private consumption growth of 2.0% is expected for 2013, accelerating to 2.7% and 3.0% in 2014 and 2015, respectively, as the labor market strengthens (*see Chart 5*).

The gradual recovery of the wider European economy and the strengthening US market will assist in building business confidence. Being concentrated in investment goods, the slow recovery in global trade has weighed on the sector. However, the strength of the SEK is also impacting on growth. The Swedish PMI remains above the important

¹ SEB (2013), Nordic outlook, August

² Nordea Markets (2013), Economic Outlook Nordics, June

³ SEB (2013), Nordic Outlook, May

⁴ Statistics Sweden

⁵ SEB (2013), Nordic Outlook, August

50 threshold. However, while the composite PMI for the European Union has strengthened in recent months, the Swedish PMI fell from 53.5 in June to 51.3 in July. New orders fell sharply, dragged down by weak domestic investment spending. As the euro area recovery strengthens over H2 2013, export demand will gain momentum, increasing by 4.3% in 2014 and 6.2% in 2015, providing for a stronger contribution to GDP growth⁵ (see *Chart 6*). As industrial production accelerates and absorbs excess capacity, investment spending will resume in 2014.

The economy remains expansionary with interest rates at 1% and fiscal stimulus policy contributing 0.7% to GDP in 2013 and 0.9% in 2014. Inflation remains low, assisted by the strength of the SEK. This facilitates a further interest rate cut to assist in stimulating the economy and reverse falling resource utilization. The Riksbank has resisted pressure to reduce rates further, citing concerns as to housing market stability and rising credit growth. While a further rate cut is unlikely, a rate hike is not expected until H2 2014 at the earliest. ■

Chart 1: GDP Growth, 2004-2015f (%)

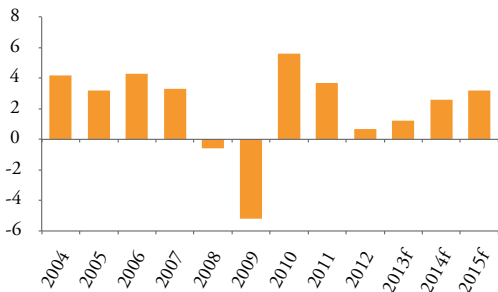


Chart 2: Employment versus Unemployment Rate, 2006-2013

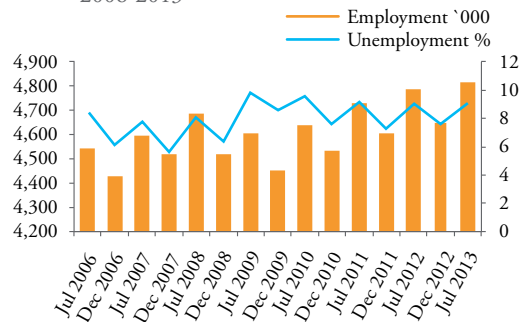


Chart 3: House Price Index, Permanent Living (1981=100)

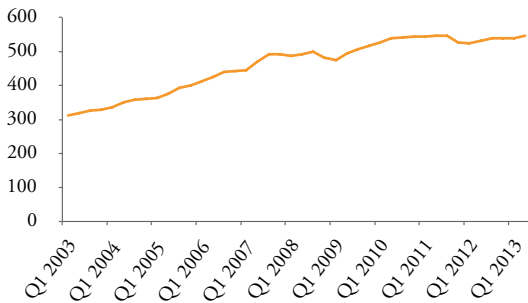


Chart 4: Consumer Confidence, Jan 1996-July 2013 (%)

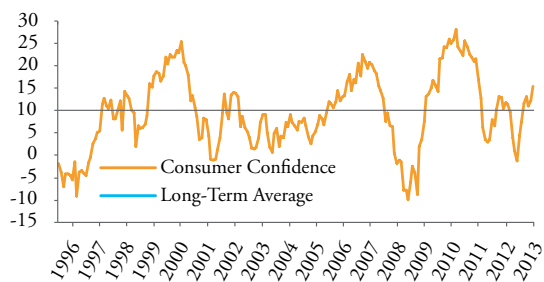


Chart 5: Private Consumption Growth, 2011-2015f (%)

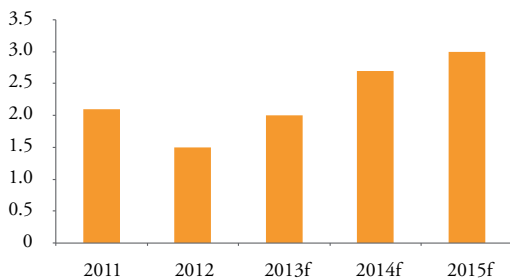
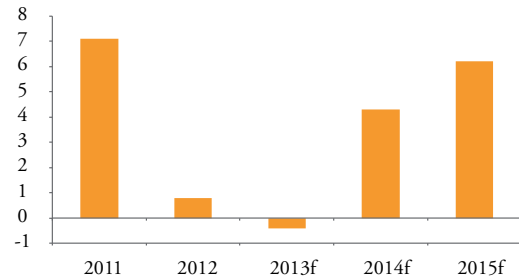


Chart 6: Export Growth, 2011-2015f (% GDP)



Sources: Eurostat; SEB, August 2013; Statistics Sweden, August 2013

FINLAND

Finland's recession is proving to be deeper and more protracted than anticipated. Data releases for Q1 2013 indicated the fourth consecutive quarter of contraction (0.1% q/q), with forward looking indicators pointing to further contraction over Q2 and into Q3, with any expectation of a return to positive growth delayed to Q4¹. The Finnish Finance Ministry revised its economic growth forecasts downward by 80 basis points in June, turning earlier expectations of 0.4% growth into a 0.4% contraction for 2013. Stemming from both weak international and domestic demand, the headwinds facing the economy are broad-based. While GDP is expected to strengthen in 2014, market expectations of growth have been revised downward to -0.3% for 2014, with a recovery to growth in 2014 (1.3%) strengthening into 2015 (1.6%) (*see Chart 1*)².

The slow recovery in global growth has impeded Finland's capacity to return to growth. While the European Union returned to positive GDP growth of 0.3% over Q2 2013, it follows six quarters of contraction. The prolonged recession within the EU and slower growth in emerging markets including Russia have resulted in low demand for exports. This is particularly marked for Finland, due to the concentration of its export market in investment goods. While Finland's main EU trading partners, Sweden and Germany, are enjoying above-average economic growth within the region, investment spending remains cautious³. As a result, while the volume of Finnish exports has improved since end-2012, it continues to post a decline on an annualized basis, with export volumes for H1 2013 1.5% lower than H1 2012 (*see Chart 2*). This is exacerbated by the decline in the value of electronic goods exports following the closure of Nokia's mobile phone manufacturing plants. Following the sharp decline ex-

perienced in Q1, new manufacturing orders continue to post a decline for Q2 2013 on an annual basis, albeit unevenly. Paper and textile new orders posted a modest increase of 1.4% for Q2 year-on-year, but remain soft. Encouragingly, monthly data for June turned positive for the first time since November 2012, with new manufacturing orders increasing by 2.2% year-on-year. While monthly data is too volatile to suggest a trend, recent developments including the EU's return to growth and an upturn in both the European Economic Sentiment indicators and composite PMI provide for cautious optimism that export growth will resume over Q4. While economic growth is expected to return to modest growth during 2014, the outlook for export growth in 2014 has weakened by 20 basis points since Q1 to 0.3% (*see Chart 3*).

Domestic investment spending has also declined year-on-year by 5.5% over Q1. Low levels of capital expenditure in recent years suggest that there will be a bounce in investment spending when economic recovery ensues, given the pent-up demand for new investments. While capital expenditure on plant and machinery remained low, but stable, construction declined by over 8% year-on-year in Q1 and by 7.9% in the three-month period to the end of May 2013 year-on-year. Given the fall in the volume of new building permits, a further decline in the sector is expected over H2 2013. However, the housing market remains stable. The absence of a former pricing bubble, the relative solvency of households, a low interest rate environment and low supply leave it well equipped to withstand the impact of tax changes and the proposed regulation of lending criteria.

While consumer spending assisted economic growth during H2 2012, rising unemployment has lowered already de-

¹ Bloomberg (2013), Finland reduces economic forecasts as Euro-area recession spreads, 19 June

² SEB (2013), Nordic Outlook, August

³ Danske Research (2013), Nordic Outlook, June

⁴ Nordea Markets (2013), Economic Outlook Nordics, June

⁵ SEB (2013), Nordic Outlook, August

clining consumer confidence further (see Chart 4)⁴. Previously, rising unemployment was driven by the supply of labor outpacing job growth. However, employment growth stalled over H1 2013. The unemployment rate is expected to peak at 8.4% in 2013 before stabilizing at 8.1% over 2013, gradually reducing over 2014 and 2015 as the supply of labor recedes (see Chart 5). Disposable incomes are also under pressure. Wage growth has moderated and while it remains positive in real terms it will fail to compensate for the impact of taxation measures on purchasing power. The cooling of the housing market has a further negative wealth effect; while house prices continue to rise nominally, they have declined in real terms since 2011, albeit marginally. Private consumption slowed significantly over H1 2013 and,

while the relative solvency of households will sustain spending, growth will stagnate in 2013 and, at 0.9% and 1.0%, remain weak in 2014 and 2015 (see Chart 6).

The selection of austerity measures over growth stimulus reflects the government’s focus on maintaining its AAA credit rating and continuing to benefit from investor confidence and a low risk premium. The recessionary conditions will increase the budget deficit by 20 basis points to 2.2% of GDP in 2013 and government debt is expected to climb to 54%. Increased taxation coupled with spending cuts will reduce the budget deficit to 2% by end-2014⁵. However, public debt is expected to increase further, which will restrain government spending below 1% into the mid term. ■

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

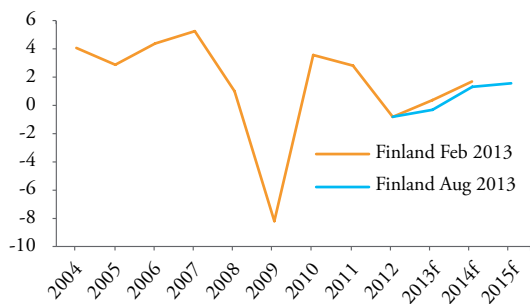


Chart 2: Monthly Exports (EUR million)

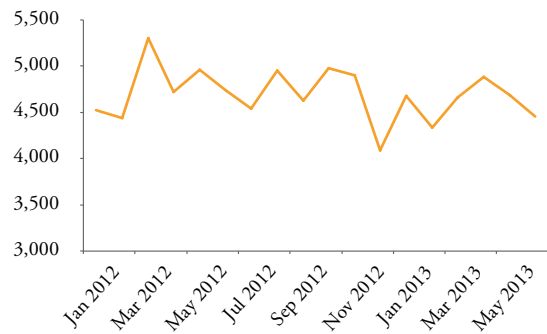


Chart 3: Export Growth (% GDP)

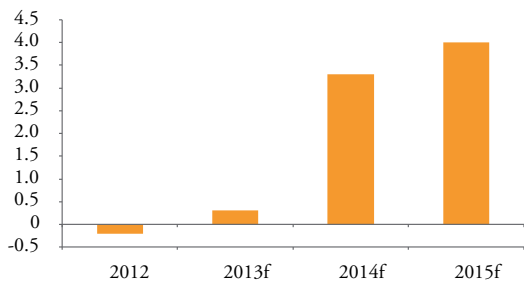


Chart 4: Consumer Confidence, 1996-August 2013

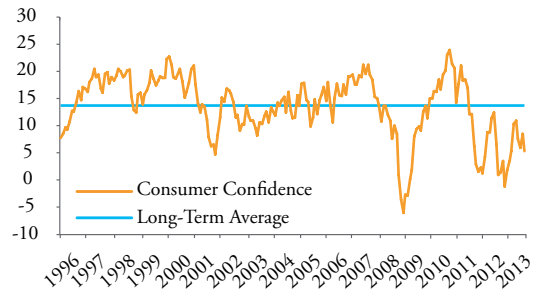


Chart 5: Unemployment, 2011-2015f (%)

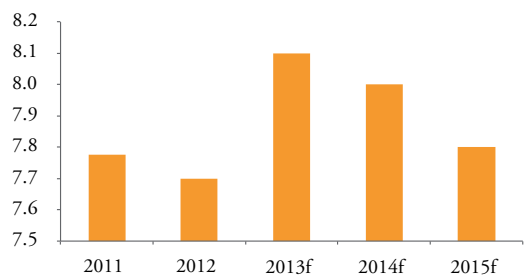
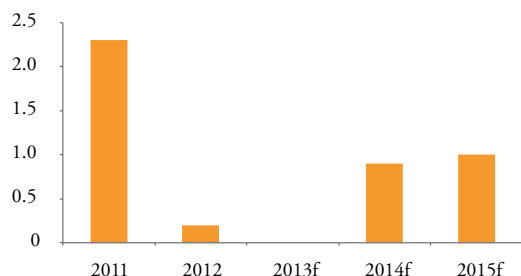


Chart 6: Private Consumption Growth, 2011-2015f (%)



Sources: Eurostat; SEB, August 2013; Statistics Denmark, August 2013

DENMARK

The structure of Denmark's export-led economy makes the timing of any recovery dependent on that of the wider European economy. Unlike its neighbors in the Nordic region, Denmark's export market is concentrated in manufactured goods from imported raw materials. Accounting for approximately 70% of its export market, the prolonged malaise of the European economy has inhibited economic growth. Indeed, the protraction of the EU recession conditions through H1 has led to a slowdown of activity in even its most stable economies, Sweden and Germany. Together with the United Kingdom, these markets comprise Denmark's principal trading partners. Slowing demand resulted in three sequential quarters of decline in the volume of exports from end-Q2 2012 to end-Q1 2013¹. While exports recovered over Q2, increasing by 5.2% on a quarterly basis, absolute volumes remain subdued². However, there are a number of reasons that point toward an improving momentum for economic growth over H2 2013 that will increase further in 2014, albeit very gradually. The expected outcome is marginally positive GDP growth of 0.4% for 2013, increasing to a more convincing 2.0% and 2.5% over 2014 and 2015, respectively (*see Chart 1*)³. There are a number of positive signals that suggest the market has finally reached a turning point.

Marked by pre-crisis overheating, the labor and housing markets have adjusted. House prices remain 20% below their peak while low wage growth has supported improved competitiveness. Government spending has been curbed and the public sector has contracted, while corporates and households have increased savings. The economy is poised for growth, but is awaiting a recovery of external demand. Positively, the euro area emerged from recession over Q2 (0.3%). While growth remains fragile, Germany achieved stronger growth (0.7%) and for-

ward looking indicators, such as the EU composite PMI moving above 50, point toward upward momentum⁴.

Improving domestic demand is a further driver of economic growth. Private consumption increased marginally over Q1 by 0.1%, primarily driven by higher spending on holidays, fuel and food⁵. However, the trend has accelerated over Q2. Consumer confidence rebounded in June to reach its highest level since April 2010 by July (*see Chart 2*). This is marked in retail sales growth, which turned positive on a quarterly basis. Tax cuts have boosted disposable incomes in 2013; while this growth will slow in 2014, households are expected to gradually increase consumption as a proportion of income. Private consumption growth of 1.0% is forecast for 2013, accelerating to 2.0% and 2.5% in 2014 and 2015, respectively, as the recovery gains momentum (*see Chart 3*)⁶. Developments in the housing market are lending support (*see Chart 4*). Both apartment and house prices are steadily gaining momentum, although regional differences persist, with the Greater Copenhagen area continuing to outperform.

Investment spending is also expected to increase over 2013. To date, businesses have deferred investment spending due to the prevailing economic uncertainty, resulting in latent demand. The improving economic outlook coupled with the opportunity to avail of the government's beneficial depreciation program for investment made in 2013 is expected to induce investment spending (*see Chart 5*). In addition, large infrastructure projects are providing a demand boost. However, while strengthening signals point to improving economic growth, they do not precipitate a bounce. Growth is expected to be gradual and incremental. Given the presence of low capacity utilization, this will result in a lag before improving momentum translates into employment

¹ Nordea Markets (2013), Economic Outlook Nordics, June

² Statistics Denmark (2013), August

³ SEB (2013), Nordic Outlook, August

⁴ Nordea Market (2013), August

⁵ Danske Research (2013), Nordic Outlook, June

⁶ SEB (2013), Nordic Outlook, August

growth (see Chart 6). However, unemployment will remain stable.

Government spending is expected to slow and will act as a counterweight to improved demand. During H1 2013, there was a debate on extending the fiscal stimulus policy, given the lack of recovery in the wider European market. The benefits of such a boost to economic activity are weighed against the deterioration in public finances and likely upward pressure on Denmark's borrowing costs expected as a result. The upward momentum in external and domestic demand is therefore timely, enabling government spending to slow without inhibiting growth. While inflation has decreased sharply over 2013, down from 1.3% in February

to 0.6% by July, this principally reflects the introduction and withdrawal of temporary VAT measures in addition to declining energy prices. However, with low inflation turning wage growth positive in real terms, the risk of a protracted period of deflation is very low.

Following a rate cut of 0.1 % in May in response to the ECB's lowering of the refi rate, the lending rate is now at a historical low of 0.2%. This deposit rate remains negative at -0.1%, which has assisted in stabilizing the krone/euro exchange rate. In addition, low interest rates have supported the economy, with household finances especially benefiting from lower mortgage repayments. ■

Chart 1: GDP Growth, 2004-2015f (%)

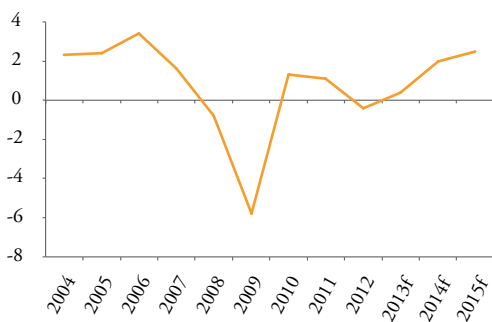


Chart 2: Consumer Confidence 1996-July 2013

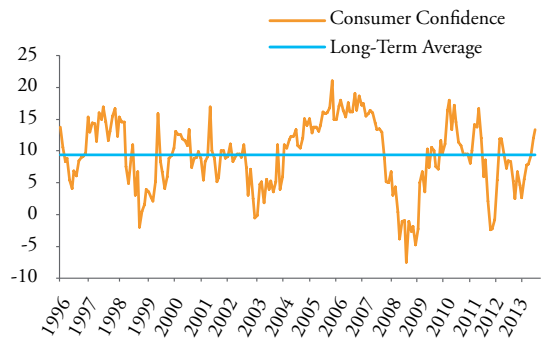


Chart 3: Private Consumption Growth, 2011-2015f (%)

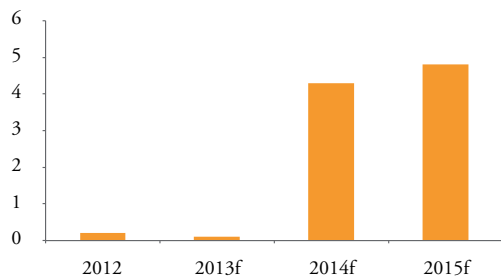


Chart 4: Index of Property Sales, Jan 2012-May 2013

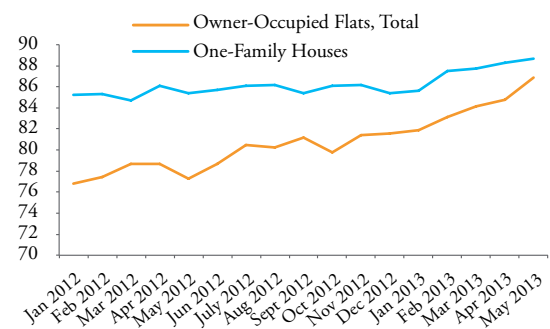


Chart 5: Gross Fixed Investment Spending, 2011-2015f (%)

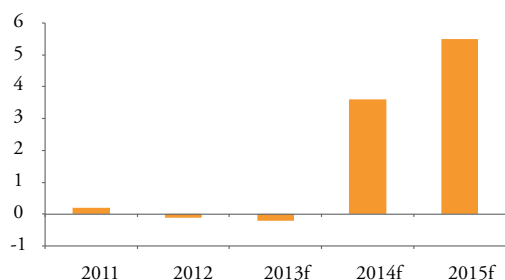
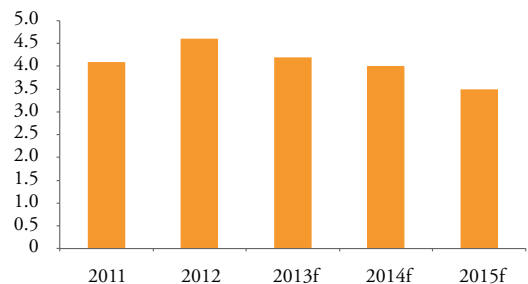


Chart 6: Unemployment, 2011-2015f (%)



NORWAY

While the economy remains largely impervious to global trade weakness, economic growth in Norway is expected to reduce sharply in 2013. Mainland GDP is expected to slow to 2.1% in 2013 from 3.4% in 2012, while total GDP will fall from 3.1% to 1.1% (*see Chart 1*)¹. Underlying data suggest that while the slowdown is broad-based the risk of any downward trajectory to growth is extremely low. Indeed, initial data for Q2 2013 suggest a reversal of the key factors that have dragged on economic growth.

Quarterly industrial production increased by 5.6% in Q2; however, this followed three preceding quarters of decline, which resulted in Q2 industrial production falling by 5.5% on an annualized basis (*see Chart 2*)². However, the aggregate data mask differences between extraction and mining and manufacturing sector trends. The decline in oil and gas production in H2 2012 continued into Q1 2013 driven by production problems, notably in gas extraction, rather than by any underlying weakening of demand. These rebounded over Q2, with gas extraction increasing by 13%. Yet, it is the upturn in manufacturing output that has surprised on the upside.

While the sector has held up reasonably well, low investment spending in the business sector has weighed on growth and new orders data suggested that growth would soften from the 1% growth achieved over Q1, despite more positive sentiment survey data. However, the latter proved to be correct, with manufacturing output increasing by 2.5% over the quarter and by 6.1% year-on-year (*see Chart 3*). This rate of growth has enabled manufacturing output to exceed the pre-crisis peak of June 2008. Growth was strongest in oil-related sectors, with the construction of ships, boats and oil platform sectors in-

creasing by 26.6%, while machinery and equipment grew by 14.5%. Investment surveys indicate investment from the sector will continue to expand in 2014.

In contrast, output of goods linked to more traditional industries (wood, wood products, basic metals and paper) declined further over the quarter by -2.2%. In part, this reflects the slump in commercial and, to a lesser extent, residential development. This is due to the scarcity of development finance as banks adjust their balance sheets to meet new capital requirements. Indeed, the sector accounts for nearly 50% of job losses over H1 2013, yet accounts for a mere 8% of employment³. While there is some evidence of renewed growth during Q2 with Norwegian bank balance sheets fully adjusted, lending criteria will remain stringent. In addition, the export sector remains under pressure from weak global demand and the strength of the krone. With even the eurozone moving out of recession, export growth should improve as investment spending improves from the end of 2013 and the currency begins to weaken as risk appetite expands (*see Chart 4*).

While real wage growth has fallen back to a more modest 2%, disposable incomes will increase by 3.5-4% this year⁴. This has enabled retail sales to recover from their weak performance in H2 2012, which occurred despite the sharp growth in disposable incomes, low unemployment, low inflation and a low interest rate environment in 2012. Retail sales increased by 0.6% over Q2 on a quarterly basis, following their strong recovery in Q1 (1.8%). Overall, private consumption growth is expected to sustain the rate of growth achieved in 2012 (3.0%), reflecting a high savings ratio. As economic growth recovers its momentum in 2014, consumer spending is forecast

¹ SEB (2013), Economic Research, Nordic Outlook, August

² Statistics Norway (2013), August

³ Danske Research (2013), Nordic Outlook, June

⁴ Nordea Markets (2013), Economic Outlook Nordics, June

⁵ SEB (2013), Economic Research, Nordic Outlook, August

⁶ Nordea Market (2013), August

to increase to 3.2% in 2014, moderating to 3.1% in 2015 (see Chart 5)⁵.

At its June meeting, Norges Bank indicated that the probability of a further rate cut was 50:50, with the authorities balancing out inflation risks and currency depreciation against low

output growth and a weakening labor market. In July, mainly driven by rising food prices, core inflation of 1.8% surprised on the upside. Viewed alongside the rebound in industrial output, any probability of a rate reduction is removed (see Chart 6)⁶. ■

Chart 1: GDP Growth (Norway versus Mainland Norway), 2011-2015f (%)

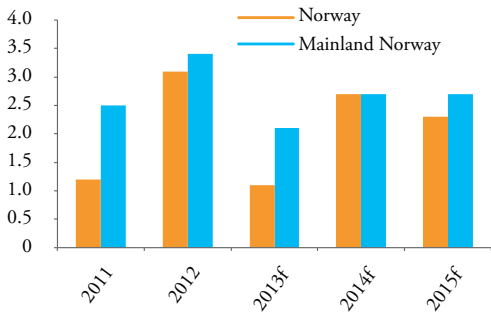


Chart 2: Index of Production Manufacturing (2010=100, seasonally adjusted)

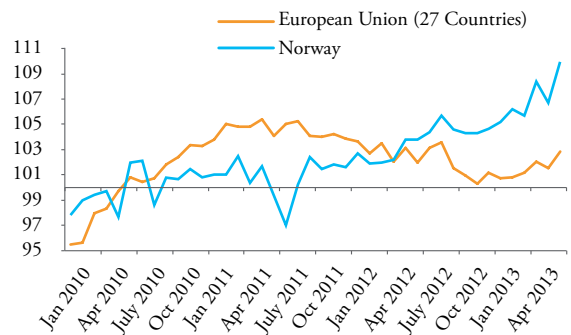


Chart 3: Industrial Production Output by Sector (%)

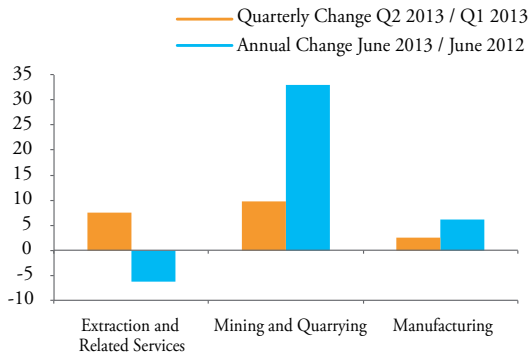


Chart 4: Export Growth (% GDP)

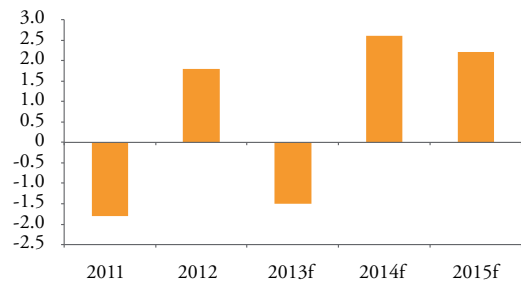


Chart 5: Private Consumption Growth, 2011-2015f (%)

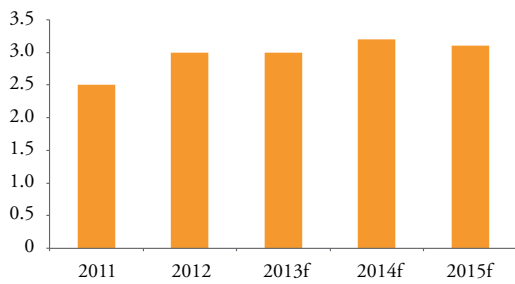
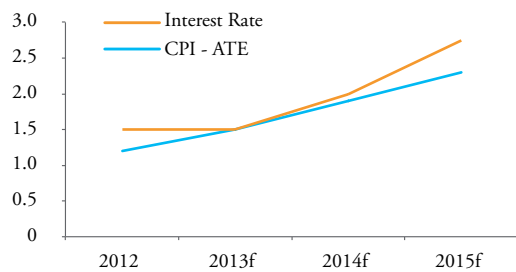


Chart 6: Inflation and Interest Rate Movements, 2012-2015f (%)



Sources: Eurostat; SEB, August 2013; Statistics Norway, August 2013

SWEDEN

Sweden has a population of 9.6 million, which has increased by an average of 0.8% per year over the past five years. Just over 22% of the Swedish population lives in the Greater Stockholm area, and this population has grown by an average of 1.8% per year over the past five years. In 2012, Sweden had a GDP of USD 526 billion, about USD 55,000 *per capita*. The unemployment rate in July 2013 was 8%, a slight increase of 0.2% on the July 2012 figure.

The Investment Market

During the first four months of 2013, activity was significantly lower in the Swedish property market compared to the same period the previous year. In May, activity accelerated and in June was very high. Transaction volume in the first half of 2013 was SEK 43 billion, compared to SEK 51 billion for the corresponding period in 2012. However, the number of transactions valued at more than or equal to SEK 100 million during the first half of 2013 was higher than the corresponding figure from 2012, 101 compared to 94. Foreign investors' share of the acquisition volume rose slightly in the second quarter of 2013, partly as a result of Rockspring's acquisition of Lidingö Centrum from Vasakronan for SEK 771 million. The foreign share of total transactions for the first half of 2013 was just 9%, compared with 19% for full-year 2012.

Transaction activity for office and retail properties in prime locations has declined significantly during 2013. Instead, investor interest has shifted to other sectors. During the past year,

there have been a high number of residential transactions in growth cities; other favored targets have been properties with a high proportion of public sector tenants, logistics/warehouse properties in good locations and retail properties with a high proportion of grocery business. The single sector that stands out the most is residential, which has achieved a record high market share of 40% so far during 2013.

In June 2013, Home Capital acquired First Hotel Amaranten on Kungsholmen in Stockholm City from the Norwegian company Host. The property, Piperska Muren 2, contains about 16,400 m² distributed over 461 rooms. The buyer paid about SEK 1 billion for the hotel property. A further two hotels in Copenhagen were included in the deal.

In May 2013, it was announced that the listed property company Balder had acquired three inner-city properties in Stockholm from Fabège. The deal included: the project property Skeppshandeln 1, located in Hammarby Sjöstad, which is close to fully let and contains hotel, office and retail space; Murmästaren 7, located on Kungsholmen, which contains office and retail space; and Fiskaren Större 3, located on Södermalm, which contains residential, office and retail space. The purchase price was SEK 815 million.

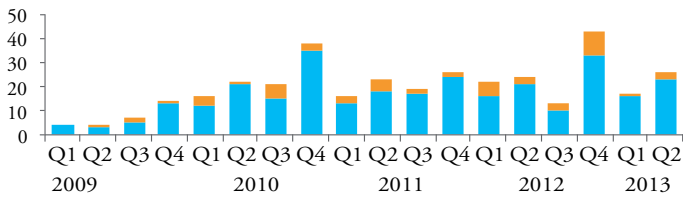
The Office Market

It is estimated that the total office stock in Greater Stockholm amounts to some 12 million m². Stockholm CBD is considered to be the most attractive office area and its stock totals about

List of Transactions - Top 8 - Greater Stockholm Area (Q2 2013)

No.	Object	Location	Buyer	Seller	Property Type	Value (SEK million)	Size (m2)	Yield (%)
1.	First Hotel Amaranthen	Stockholm (Kungsholmen)	Home Capital	Host	Hotel	~ 1,000	16,400	N/A
2.	3 Inner City Properties	Stockholm (Inner City)	Balder	Fabege	Hotel and others	815	19,300	N/A
3.	Lidingö Centrum	Stockholm (Lidingö)	Rockspring	Vasakronan	Retail and others	771	26,900	N/A
4.	1,300 Rental Apartments	Stockholm (Botkyrka)	Mitt Alby	Botkyrka-byggen	Residential	705	118,700	~ 6.0%
5.	Retail Park	Stockholm (Barkarby)	Cordea Savills	TK Development	Retail	~ 575	20,000	N/A
6.	HSB Headquarters	Stockholm (Kungsholmen)	AFA Fastigheter	HSB	Office	~ 525	11,300	5.25%
7.	Black Building	Stockholm (Sundbyberg)	Vasakronan	IVG Institutional Funds	Office	468	11,000	5.15%
8.	501 Rental Apartments	Stockholm (Rinkeby)	Stendörren	Tornet	Residential	~ 450	45,000	N/A

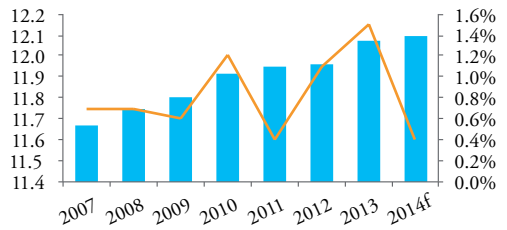
Transaction Volume Quarterly | Sweden (SEK billion)



Domestic Investors
International Investors

Source: Newsec

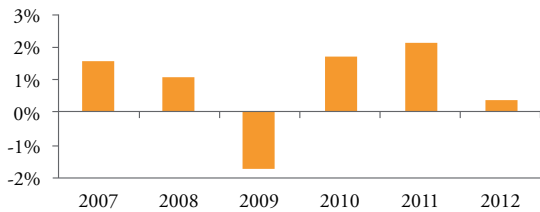
Greater Stockholm - Office (M m2)



Stock
M2 Constructed as Percentage of Stock

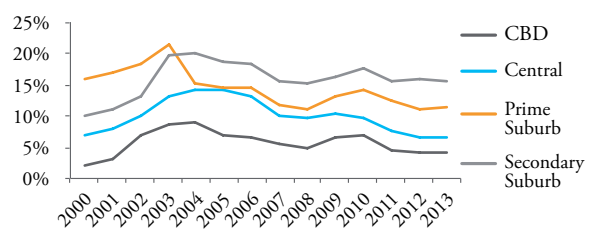
Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

Stockholm Office Vacancy



Source: Newsec

1.9 million m². Central Stockholm, excluding the CBD, has an office stock of about 4.3 million m². The main office areas in Greater Stockholm are found in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby.

New Supply

In 2012, only a few new-construction projects were started, and of these only Faberge's Scandinavian Office Building in Arenastaden will provide more than 10,000 m² of offices. A fair number of projects with completed general master plans are currently ready to be started in the Greater Stockholm area. Property developers' aversion to risk has eased up somewhat and during the first half of 2013 several office projects were announced.

Diligentia's Sveavägen 44 project in Stockholm CBD is the only ongoing project being built to the latest new-construction standards apart from Pembroke's current project Mästerhuset. Sveavägen 44 is expected to be completed around the end of 2013, and about 60% of the office space is currently let. The most recent letting was to the games company King and is for just over 4,000 m² on floor 4. Earlier leases were with Klarna, the Swedish Agency for Government Employers (Arbetsgivarverket) and RaySearch.

In May 2011, SEB signed an option agreement with the City of Stockholm that made possible the planning of a property project for the bank in Norra Djurgårdsstaden. The bank is investigating the relocation of all its Stockholm staff to one place as a means of reducing property costs. The survey covered a total of 7,600 jobs in Rissne, on Sergels Torg and Kungsträdgårdsgatan in Stockholm CBD, and on Magnus Laduläsgatan on Södermalm that would be relocated to the project property in Norra Djurgårdsstaden. The evaluation

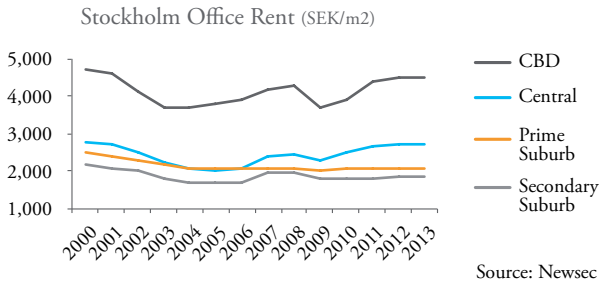
by SEB has now been completed and showed that the disadvantages of a move would be greater than the advantages. The need for workplaces fell to 6,800 during the course of the survey, while the cost of the new building has risen. Based on the survey, SEB's board and management made the decision that the bank should stay in its present premises and develop these in accordance with its needs. SEB is therefore not exercising its option on Norra Djurgårdsstaden, where it had planned a bank building with a total of 120,000 m² of premises.

The Occupier Market

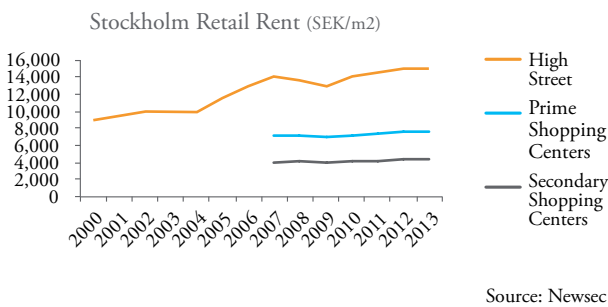
Rental levels in modern, space-efficient office properties in Stockholm CBD remained stable at SEK 4,500 per m² during the second quarter. Newsec estimates that market rents will remain stable up to year-end 2013. This is due mainly to psychological effects caused by general anxiety about the economy and worries about higher vacancy rates in office premises in Stockholm CBD, when several large companies leave the submarket in the very near future.

The vacancy rate in the CBD is expected to remain stable at around 4% up to the end of 2013 and then to slightly increase as the announced relocations take place. The Inner City has become an interesting alternative to the CBD, resulting in historically high rental levels. The Inner City vacancy rate decreased by 0.5% to 7.0% during the fourth quarter of 2012 and has since stayed at this level. Inner City rents are estimated at SEK 2,700 per m².

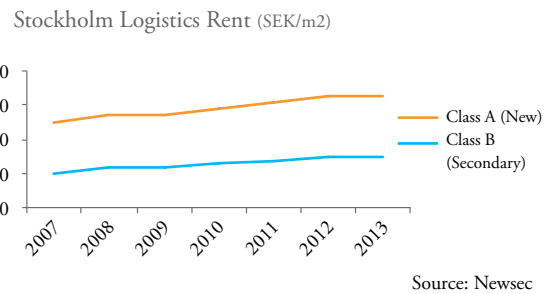
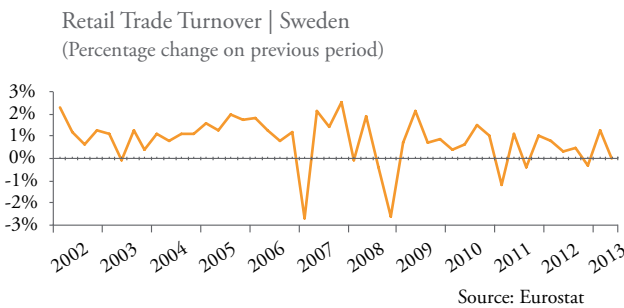
Between the fall of 2013 and the spring of 2016, Swedbank, Nordea and Försäkringskassan will all either greatly reduce the space they lease in Stockholm CBD or leave the district entirely and set up operations in the inner suburbs instead. This means that a total of about 130,000 m² of office space will become empty, representing about



7% of the office stock in the CBD. The properties will become empty at intervals and will be rebuilt and upgraded before they are returned to the market. Several property owners have presented plans about how the properties about to be vacated should be improved.



The largest single office letting in Stockholm for a very long time became public in May when it was announced that NCC had signed a lease contract with TeliaSonera for the whole of the upcoming Kristinebergshöjden project on western Kungsholmen. The contract is conditional on detail planning and approval by the authorities being given in 2013. The planned start of building would follow early in 2014, with completion estimated in 2017. The project, comprising 50,000 m², will provide workspace for about 3,500 people who



List of Office Projects - Top 5 - Sweden (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	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.	Mästerhuset	Stockholm (CBD)	Pembroke	30,000	2013	2015

List of Retail Projects - Top 5 - Sweden (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	Project start	Expected date of completion
1.	Mall of Scandinavia	Stockholm	Unibail-Rodamco	95,000	2012	2015
2.	IKEA/Ikano Shopping Center	Umeå	Ikano/IKEA	35,000	2012	2015
3.	Norra Backa	Borlänge	Ikano/IKEA	33,000	2011	2013
4.	Mobilia - Phase III	Malmö	Atrium Ljungberg	29,000	2011	2013
5.	Torp Retail Area	Uddevalla	Ikano/IKEA	25,000	2010	2013

today work in Farsta and at the head office on Stureplan. TeliaSonera is relocating as it wants to site its employees in one place in specially-adapted and environmentally-certified premises and at the same time reduces its costs for premises. The premises in Farsta are spread over a wide area, whereas the planned property consists of three conjoined blocks; TeliaSonera will lease all the space apart from some areas on the ground floor. Centralizing of the business in this way will also see the company's management be brought closer to other employees. As a result of the move, TeliaSonera will reduce its leased space by a total of over 25,000 m².

The Retail Market

Household caution is clearly reflected in the retail trade, which is only showing a low pace of growth. However, retailing made a strong start to 2013. Even though there were minor fallbacks, figures have been fairly stable, with the exception of the fourth quarter of 2012 and the second quarter of 2013.

So far this year, retail trade has tended to stand still while other industries have grown. Consumption has been directed to a larger extent to travel and eating out, which means that retail turnover figures have not risen as fast as before. Nonetheless, the first half year is expected to show cautious positive growth. Growth is expected to take off in the second half of the year as a result of weak comparative figures from the fall of 2012, a lower number of redundancy notices and continued rising consumer confidence.

Domestic consumption is the most important growth engine in the Swedish economy at the moment. Household real disposable incomes increased by 4.8% during the first quarter of 2013 and are expected to go on rising at about 3% up to the end of 2014, due to a combination of a stable labor market, wage rises

and low inflation. The Consumer Confidence Indicator (CCI) rose by nearly 0.5 points in June, from -2.3 to -1.8. The indicator still stands almost two points below its historical average value. Household saving as a share of disposable income was just over 10% in 2012, a level that is expected to continue in 2013-2014. Low interest rates, a stable labor market and rising incomes are expected to have a positive effect on consumption during the coming years.

New Supply

About 500,000 m² of additional retail space is planned in Stockholm up to 2015. The largest planned project is Mall of Scandinavia at the new National Arena in Solna, which will have about 100,000 m² divided among 250 stores. The official opening is planned for 2015. In northern Stockholm, Täby Centrum is to add about 25,000 m² of retail space; this is expected to be ready in 2015. Both sites are owned by Unibail-Rodamco.

In January 2013, it was announced that Ikano Bostad, Ikano Retail Centres and IKEA had signed a letter of intent with the City of Stockholm. The agreement related to possible construction of a retail and residential development at Söderstaden, near Globen in Stockholm. The initial plans include up to 80,000 m² of lettable retail space together with an IKEA superstore. The earliest estimated year of opening would be 2017.

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 15,000 per m² in Q3 2012 and have since been stable.

As a result of the growth in population and a moderately rising consumption in Stockholm, the demand for retail prem-

ises in good locations is high, which is driving rental development. 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 department stores is toward smaller floor areas as the requirement for high space-efficiency grows. The most sought-after addresses in central Stockholm are found along Biblioteksgatan, Norrmalmstorg and in Gallerian. There is only one major project currently in hand close to these areas. The Norwegian sporting goods retailer XXL Sport och Vildmark will open a flagship store at the Hamngatan/Regeringsgatan intersection. The store, located in Vasakronan's property Spektern 13, will cover 3,800 m² and will open in May 2014.

a result of the weak industrial market. This has led to a decreasing supply of vacant logistics space. ■

The Logistics Market

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

The Occupier Market

Rental levels for prime logistics properties in Stockholm are currently slightly above SEK 800 per m². Tenant demand for good logistics premises with locations connected to logistics clusters and transportation hubs will remain stable due to expectations of resilient domestic growth during 2013-2014. Few speculative developments are ongoing as

FINLAND

Finland has a population of 5.4 million, which has increased by an average of 0.5% over the last five years. Finland's population grew by about 13,000 during the first half of 2013, which was some 300 less than in the corresponding period of 2012. The most significant reason for the population increase was a net immigration of 9,250 people.

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 2012, Finland had a GDP of USD 250 billion, about USD 46,100 *per capita*. According to Statistics Finland's Labor Force Survey, the number of unemployed persons in July 2013 was 183,000, equivalent to an unemployment rate of 7.0%. The corresponding figure in July 2012 was 193,000 persons, equivalent to an unemployment rate of 6.9%.

The Investment Market

Transaction volume in Finland in the first half of 2013 was EUR 800 million, slightly less than last year. The share of commercial properties in total transaction volume is normally 70-80%, but it accounted for only half the volume in H1. The main reason for the change was the high number of residential and healthcare portfolio transactions. In addition, the commercial transaction volume was affected by difficulties in finding suitable prime properties and the absence of value-add investors in the market. The Helsinki Metropolitan Area's portion of the transaction volume was approximately 50%.

More than half of the transaction volume is made up of individual properties and over 20% of the transactions were made by foreign investors. Generally, all transactions take a very long time and all investment decisions are very carefully considered and analyzed.

In June 2013, a club of Finnish institutions, VVT Property Fund I, acquired a hotel property on Siltasaarenkatu 14 in Helsinki from AREFF, a property fund managed by Aberdeen. The hotel is located in the immediate vicinity of Hakaniemi Square and a metro station, two kilometers north-east of Helsinki CBD. The hotel property consists of around 7,000 m² of lettable area. The hotel premises are leased on a long-term basis to Restel's Cumulus Hotel Chain. The ground floor is leased to fashion retail chains. The property was originally constructed in 1959 but was fully renovated and converted to hotel use in 2010.

In May 2013, Sagax acquired an industrial property in Espoo, near Helsinki. The purchase price was EUR 27.3 million and the property is located 20 minutes drive from Helsinki city center toward the west. It consists of 50,000 m² of freehold land and 16,000 m² of leasable area. The property is fully let to Nokia Siemens Networks.

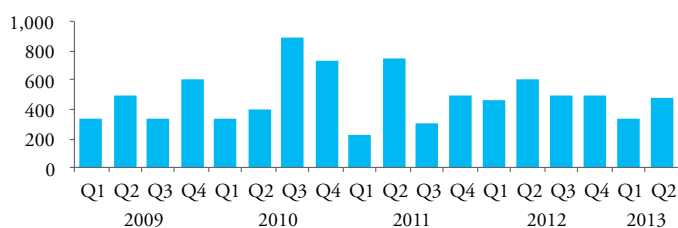
The Office Market

The size of the total office stock in the Finnish university cities is about 11.8 million m²; the largest volumes are in the Helsinki Metropolitan Area (HMA), Tampere, Turku and Oulu. About 8.5 million m², or 72% of the

List of Transactions - Top 8 - Greater Helsinki Area (Q2 2013)

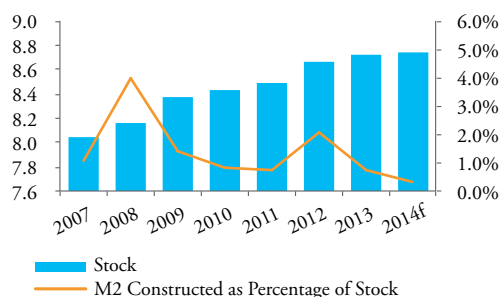
No.	Object	Location	Buyer	Seller	Property Type	Value (EUR million)	Size (m2)	Yield (%)
1.	Hartwall Arena	Helsinki	Arena Events Oy	Helsinki Hallit Oy	Multipurpose arena	N/A	70,000	N/A
2.	Siltasaarekatu 14	Helsinki	VVT Property Fund I	Aberdeen (AREFF)	Hotel	N/A	7,000	N/A
3.	Karaportti 8	Espoo	Sagax	Nokia Asset Mgmt.	Industrial	27.3	16,000	N/A
4.	Strömberginkuja 1	Helsinki (Pitäjänmäki)	Ami Foundation	TMW Pramerica	Office	N/A	8,500	N/A
5.	Uudenmaankatu 24	Helsinki	A.Ahlström	Fennia Life	Other	N/A	4,000	N/A
6.	Raumantie 1A	Helsinki	Fennia Life	Dextra	Medical Center	14	3,900	N/A
7.	Tikkurilantie 141	Vantaa	Aktia Life	Catella Real Estate AG	Logistics	N/A	9,700	N/A
8.	Sähkötie	Vantaa	Aktia Life	Danish K/S	Retail	N/A	N/A	N/A

Transaction Volume Quarterly | Finland (EUR million)



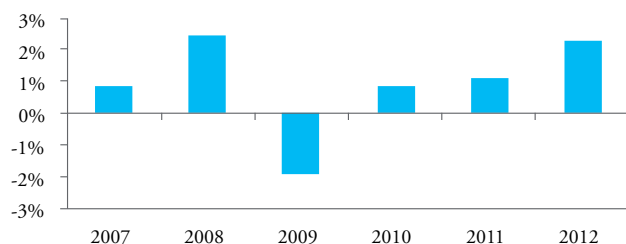
Source: Newsec

Greater Helsinki - Office (M m2)



Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

List of Office Projects - Top 5 - Finland (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m2)	Project start	Expected date of completion
1.	E&Y Office Building	Helsinki	Etera	19,000	2012	2014
2.	UPM Kymmene HQ	Helsinki	YIT/UPM	17,000	2013	2014
3.	KPMG Office Building	Helsinki	Etera	18,500	2012	2013
4.	Eventes Business Garden	Espoo	Peab	14,100	2012	2014
5.	Dixi Office and Retail Complex	Vantaa	YIT	7,500	2013	2014

total stock, is located in the HMA, which is the commercial center of Finland.

Helsinki CBD represents a very small portion of the HMA's office market. The total size of the CBD is only 420,000 m², which is only 5% of the total office stock in the HMA. The other 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. The most obvious new upcoming area is Töölölahti in the immediate vicinity of Helsinki CBD.

New Supply

In the HMA, around 750,000 m² of new office premises is planned. However, due to macro-economic uncertainty and a lack of signed tenants, developers have not been able to initiate developments.

New construction during 2012 was higher than during previous years, approximately 180,000 m², due to several new headquarter projects finishing toward the year end. As a consequence, the completion rate for 2013 was revised and is now estimated to amount to about 60,000 m². Currently, just over 100,000 m² of new offices are under construction, but only three new office projects were started in the first half of 2013. Construction activity will stay at a low level in 2014, because developers are hesitant to start new speculative office projects without a binding purchase contract with end-investors.

Headquarters buildings for E&Y, KPMG and UPM-Kymmene are under construction in Töölölahti, a new office area next to the Helsinki Central Railway Station. The properties are due for completion in 2013-2014. In addition, the Alma Media HQ was completed in late 2012. When the Töölölahti area is finished, it will be one of the most significant headquarter areas in Finland.

The Finnish pension institution Etera owns the E&Y, KPMG and Alma Media buildings and UPM-Kymmene owns its own HQ. The properties are located in the immediate vicinity of the Helsinki Central Railway Station.

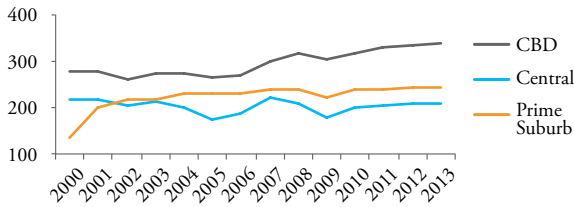
Most of the office development projects under construction in the HMA are headquarter properties. Peab is constructing a new headquarter building (Eventes Business Garden) for the Finnish listed technology and engineering company Outotec Oyj in Matinkylä, Espoo. Eventes is inter-connected to Sapphire Business Park, an office development by YIT, which is also in part leased by Outotec. Eventes was acquired by Union Investment and Sapphire by Deutsche Asset and Wealth Management (formerly RREEF). The properties are located in the immediate vicinity of the Iso Omena shopping center and an upcoming metro station.

The Occupier Market

The spread in rent and vacancy between prime and secondary offices has remained wide and has even increased slightly. CBD office rents have continued to increase slightly and are currently at approximately EUR 340 per m² per year. Rental levels in the most popular office and business park areas are expected to stay relatively stable. At the same time, secondary areas are struggling with increasing vacancies and deflating rental levels. Typically, tenants receive incentives such as rent-free periods.

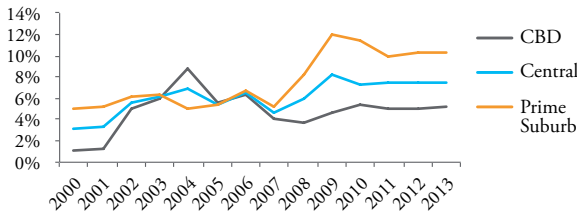
The completion of the Töölölahti area is expected to increase the CBD vacancy level slightly in the short term. However, occupier demand is relatively strong in the city center area and vacant premises are expected to be occupied by new tenants. Large parts of older premises with vacancies are already leased to new tenants; eg. the former Alma Media HQ is under renovation and will be occu-

Helsinki Office Rent (EUR/m²)



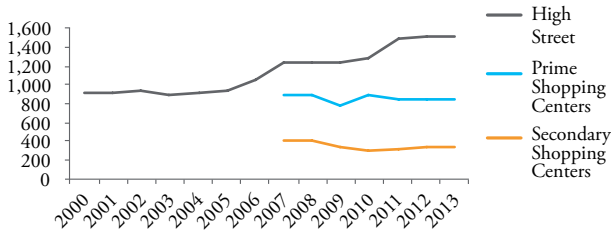
Source: Newsec

Helsinki Office Vacancy



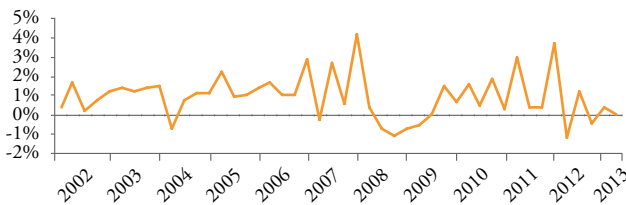
Source: Newsec

Helsinki Retail Rent (EUR/m²)



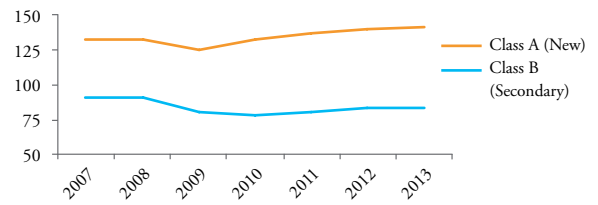
Source: Newsec

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



Source: Eurostat

Helsinki Logistics Rent (EUR/m²)



Source: Newsec

pied by law firm Hannes Snellman. The former Hannes Snellman premises were acquired by the Central Church Fund and will be occupied by the Evangelical Lutheran Church of Finland.

In Ruoholahti, the vacancy rate increased significantly about a year ago when Nokia vacated its research center and Technopolis Ruoholahti phase II was completed with an occupancy rate of around 50%. Ruoholahti's vacancy rate stayed at around 15% during the first half of 2013.

The Retail Market

About 50% of the retail stock in the HMA is located in Helsinki, and about 25 percent 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%. The difference between prime and secondary areas is apparent. A large proportion of the shopping centers in secondary areas is old and located in the suburban areas of Helsinki.

List of Retail Projects - Top 5 - Finland (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	Project start	Expected date of completion
1.	Shopping Center Puuvilla	Pori	Renor/Ilmarinen	55,000	2012	2014
2.	Kaari Shopping Center	Helsinki	S-Group	55,000	2011	2013
3.	Hämeenlinna Shopping Center	Hämeenlinna	Keva/NCC PD	30,000	2012	2014
4.	Extension Of Iso Omena	Espoo	Citycon	25,000	2013	2016
5.	Lielhticenter	Tampere	NCC Property Development	15,000	2012	2014

The Finnish retail trade was relatively strong between 2010 and 2012. However, in 2013 retail trade turnover growth was close to zero for the first two quarters. The Finnish consumer confidence level is relatively good compared to the eurozone average. On the other hand, the Finnish Ministry of Finance estimates that the purchasing power of Finnish employees will fall by 1.1% in 2013 compared to 2012. The most significant reasons for that are low consumer spending, a weak development of real earnings, unemployment and an increase in VAT at the beginning of the year. The retail market, especially in secondary locations, is expected to be affected by an increase in e-trade.

New Supply

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

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

Citycon and NCC Property Development are jointly expanding the Iso Omena shopping center in Matinkylä, Espoo. The parties will have a 50-50 partnership in the project, which will

see the leasable retail area of Iso Omena increased by around 25,000 m² to over 75,000 m². The project is expected to be ready in 2016.

The Occupier Market

The main High Streets of Helsinki are considered to be Aleksanterinkatu and Pohjoisesplanadi (together with their side streets). Virtually all premises are occupied and finding a suitable, vacant retail space is difficult for new tenants. In Helsinki, High Street retail rents have been increasing throughout the second half of the 2000s. At the end of the second quarter of 2013, prime High Street retail rents in Helsinki were EUR 1,515 per m². Historically, Helsinki's High Street rents have grown faster than other retail segments. In the coming three years, a stable development, or a minor increase, is expected for High Street retail rents.

The Logistics Market

The weakening economic situation has had a negative impact on demand for logistics premises. At the same time, increasing e-trade has had a positive impact on the logistics market. Overall, the vacancy rate of industrial and warehouse space increased slightly in H1.

The Occupier Market

Prime rents today stand at EUR 142 per m² per year; for the secondary markets, rents are EUR 84 per m² per year. As with the office and retail sectors, the spread between prime and secondary logistics has widened in recent years in terms of both rental levels and vacancies. The focus has shifted to logistics areas located outside the HMA, alongside the main road corridors, where land is affordable and building regulations more flexible. Several large corporations, including Itella, Kesko and SOK, have recently opened new logistics centers outside the HMA. ■

NORWAY

Norway has a population of close to 5.1 million, which has increased by an average of 1.3% per year over the past five years. A percentage growth of this magnitude was last experienced during the 1920s and it makes Norway a stand-out compared to other European countries. The Greater Oslo area accounts for just over 25% of the Norwegian population and has grown by an average of 2% per year over the past five years. In 2012, Norway had a GDP of USD 501 billion, about USD 99,500 *per capita*. The unemployment rate in Norway is exceptionally low and has been so for many years. In June 2013, it stood at 3.1%, a decrease of 0.5% since December 2012.

The Investment Market

In terms of pure volume, 2012 was a great year for the Norwegian property market. To find a parallel, you need to go back to the boom years of 2006 and 2007. Transaction volume in 2012 was NOK 51 billion, a 45% increase on 2011's NOK 35 billion. Q4 2012 had a particularly large impact, with a transaction volume of some NOK 21 billion. The first half of 2013 saw somewhat lower volumes than the corresponding quarters in 2012 but investor interest in property is still high. As a result of the high demand, the yield for central office properties in Oslo has decreased and is now at 5.0%.

Interest in properties with potential for conversion to residential accommodation remains high. Several players, some of whom do not have property experience, have acquired residential

conversion projects. Buyers are paying a premium in the belief that residential prices will continue to rise.

For the first time in almost two years, the financing market is improving. Industrial players have benefited from a slight improvement in lending margins. However, not all investors are able to take advantage of this improved lending situation, since banks prefer safe cashflows and experienced property investors.

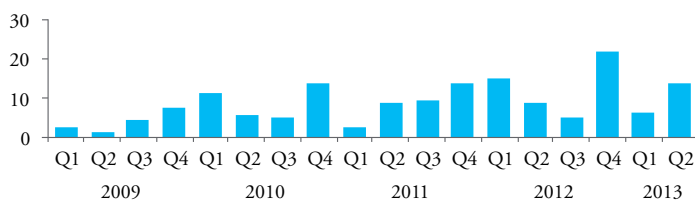
In the second quarter of 2013, Braathen Eiendom acquired Deloitte's new Norwegian headquarters, also known as "Isfjellet", in Bjørvika from Oslo S Utvikling AS (OSU) for about NOK 875 million. The building contains 18,000 m² of which 15,000 m² is office space. Deloitte will relocate from Skøyen to its new headquarters in December 2013.

Investors are showing greatest interest in core office properties and properties with long leases, resulting in yields at low levels. For these properties, the prime yield in Oslo CBD is about 5.0%. Residential projects are still attractive and several of the larger transactions in 2012 and 2013 were residential conversion projects. Secondary objects have suffered a yield increase in 2013, due both to problems with financing and to risk-aversion among investors. The prime yield is expected to stay at about 5.0% during 2013. Value-add properties with the right qualities should stay attractive and make up a considerable part of the transaction market in 2013.

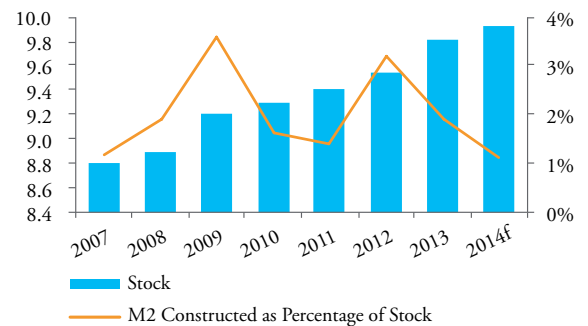
List of Transactions - Top 5 - Greater Oslo Area (Q2 2013)

No.	Object	Location	Buyer	Seller	Property Type	Value (NOK million)	Size (m ²)	Yield (%)
1.	Gullhaug torg 4	Oslo (Nydaleen)	Syndicate with NRP and Others	Storebrand Eiendom	Office	900	26,000	8.0%
2.	Granfos Næringspark	Oslo (Lysaker)	Mustad Eiendom	DNB Liv	Office and Others	900	61,000	5.4%
3.	Offices for Deloitte	Oslo (Bjørvika)	Braathen Eiendom	OSU	Office	875	18,000	4.75%
4.	Nydalen Allé 33	Oslo (Nydaleen)	Statnett	Avantor	Office	718	22,000	6.4%
5.	Strandveien 4-8	Oslo (Lysaker)	Ferd Eiendom	Aberdeen	Office	450	24,300	N/A

Transaction Volume Quarterly | Norway (NOK billion)

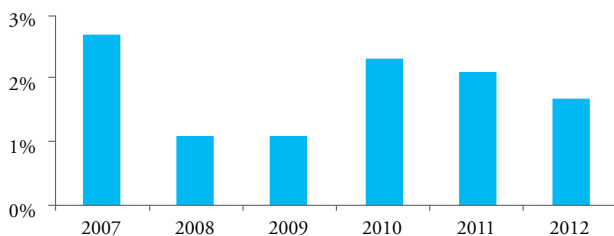


Source: Newsec

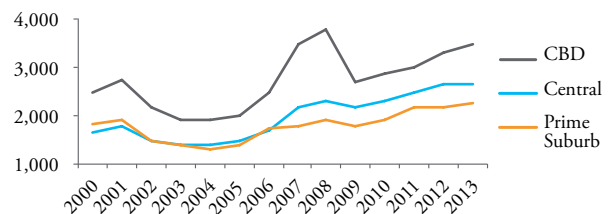
Greater Oslo - Office (M m²)

Source: Newsec

Net Take-up as Percentage of Stock



Source: Newsec

Oslo Office Rent (NOK/m²)

Source: Newsec

List of Office Projects - Top 5 - Norway (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	Project start	Expected date of completion
1.	Fornebuporten (Building 1)	Oslo (Fornebu)	Aker	28,000	2013	2015
2.	Philip Pedersensv. 3-7	Oslo (Lysaker)	NCC	18,500	2013	2015
3.	New Off. for Kongsberggruppen	Oslo (Asker)	Oxer Gruppen	18,000	2012	2014
4.	Ullern Panorama	Oslo (Oslo west)	Selvaag	17,700	2012	2014
5.	Haslevangen 16	Oslo (Økern)	Høegh	13,000	2013	2015

List of Retail Projects - Top 5 - Norway (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	Project start	Expected date of completion
1.	Økernsenter	Oslo	Steen & Strøm	50,000	2010	2017
2.	Sartor Senter	Bergen	Sartor Holding	41,000	2013	2015
3.	Åsane Senter	Bergen	"Steen & Strøm and Nordea Liv"	40,000	2010	2017
4.	Fornebu S	Oslo	KLP	25,000	2012	2014
5.	Oasen Senter	Bergen	Sektor Eiendomsutvikling	8,000	2012	2013

The Office Market

The total office stock in Oslo is approximately 9.8 million m². The Oslo CBD is relatively small compared to the other Nordic countries, and the most attractive and highest-priced office locations are in the Vika and the Aker Brygge areas. However, Bjørvika and the area around the Central Station 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

A record high of 300,000 m² of office space was constructed in 2012. In 2013, 186,000 m² of office space will be completed, almost all of which has been absorbed. There are some minor vacancies in the development projects Østensjøveien 27, Ryensvingen 5-7 and hotel Asker Panorama, but these account for less than 10,000 m² in total. In 2014, the volume falls to just over 60,000 m². Several major conversion projects, such as Københavngata 10, Middelthunsgate 17, Statnett at Huseby and hotel Fernanda Nissens gate 3, will lead to around 150,000 m² of office space being converted to residential and hotel premises in the next three years.

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 m² constructed in Greater Oslo as a percentage of stock has been about 2% per year on average over the past five years. Compared to Stockholm, where the corresponding figure is between 0.5% and 1%, Oslo has seen a substantial amount of new development. Throughout the financial turmoil, the net take-up as a percentage of stock in Oslo remained positive, while both Stockholm and Helsinki showed negative figures in 2009.

Fornebuporten building 1 is a new project being undertaken by the Norwegian oil service company Aker. The company has a history of building its own headquarters and then performing a sale-leaseback. The project at Fornebu commenced in March and will, when finished in 2015, be the new headquarters for Kværner, one of the subsidiaries of Aker. Kværner will lease 8,000 m², leaving 18,000 m² of offices vacant. The remaining areas will be used for retail. A second building is planned with an additional 25,000 m².

In May 2013, Technip Norge AS, a global leader in the oil services sector, signed a lease for 13,400 m², with an option to lease the remaining 5,100 m² in NCC's Lysaker Polaris office project. This launches the project, which will cover a total of 18,500 m². The rental level is approximately NOK 2,200 per m². Occupancy is scheduled for June 2015. Lysaker Polaris will be a landmark along the E18 and the project is the first phase of a total of two. NCC has already successfully developed over 100,000 m² of office space in the Lysaker area.

The Occupier Market

Rental levels in modern, space-efficient office properties in Oslo CBD have risen so far in 2013 and are now estimated to be about NOK 3,500 per m². The vacancy rate in the CBD has declined further to around 3.25%. The Inner City vacancy rate decreased by 0.75% to 5.75% during the second quarter of 2013. The Inner City rent is estimated at NOK 2,650 per m². The number of contracts signed during the second quarter is in line with the previous quarter, 214 compared with 224. On the other hand, the amount of m² signed rose sharply from 117,000 m² to 233,000 m².

The Retail Market

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

2013 started off well and we have now seen three consecutive quarters with positive growth in retail trade turnover. The seasonally-adjusted volume index of retail sales showed a decrease of 0.2% from May to June 2013. This follows an increase of 1.8% from April to May. Declining sales in grocery stores in particular contributed to this. Retail sales of food, beverages and tobacco in specialized stores also contributed to the decline. Petrol stations and shops selling building and construction materials, clothes and Internet services were among those with an increase in sales volume from May to June.

New Supply

Over the past 20 years, the total floor space in Norwegian shopping centers has quadrupled, and today more than one-third of all Norwegian retail trades take place in shopping centers. Hence, Norway has one of the largest *per capita* levels of retail space in the world. The level of new developments has fallen lately as a consequence of the relatively saturated market. The trend is that the largest becomes even larger. As an example, the owner of Lagunen shopping center in Bergen has plans to more than double the size of that shopping center.

In Bergen, several retail projects are ongoing and among these is Oasen Senter. The owner of the shopping center, Sektor Eiendomsutvikling, has initiated an expansion of the center by 8,000 m² of retail space, 3,000 m² of office space and new parking facilities spread over

two underground floors. When completed, the shopping center will consist of 40,000 m² of retail space.

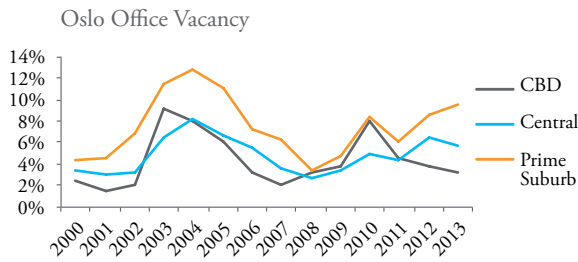
The Occupier Market

Retail rents have increased at a steady pace since 2011 and the trend is expected to continue in 2013. Several international players are targeting the best locations in Oslo Center, especially at and around Karl Johan. During the second quarter of 2013, a number of lease contracts were signed on Karl Johan Street and on the side streets to the main street. Among others, Genesta signed a lease with the fashion store G-star. Several others, primarily luxury brands, see Oslo and Norway as the place to be, with a fast-growing economy and increasing private wealth among the population. Vacancies are close to none in good locations on High Streets and prime shopping centers.

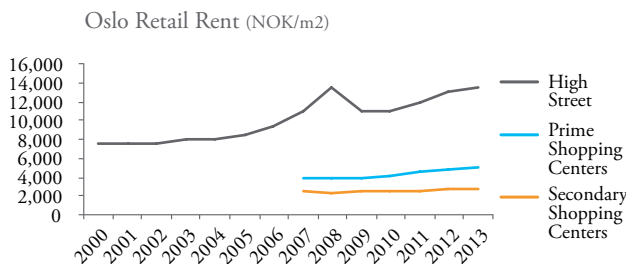
Søylen Eiendom has been successful in establishing good concept stores in the past, such as Bottega Veneta on Prinsens gate 21 and Michael Kors on Øvre Slottsgate 18-20. Søylen Eiendom has managed to achieve very good rental levels on these side streets, with minimum rents of up to NOK 10,000 per m² per year.

The Logistics Market

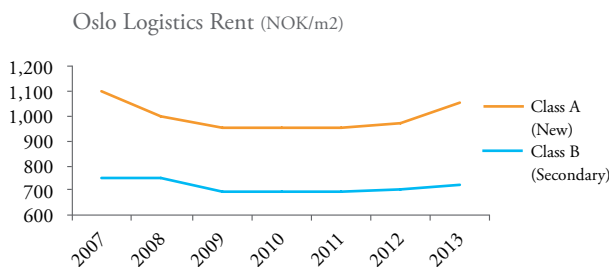
The demand for logistics space by operators in the Greater Oslo area has been stable for a long time. The major operators, those who require larger logistics facilities, are in most cases located along the roads heading south and north of Oslo where the roads lead into the interior of the country. Operators 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 and the industrial area around Gardermoen Airport are



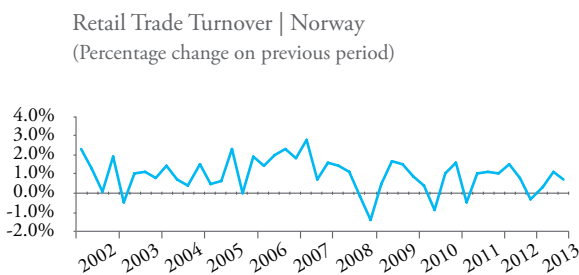
Source: Newsec



Source: Newsec



Source: Newsec



Source: Eurostat

focused on national distribution, and are currently undergoing redevelopment 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 developments. Hence the demand for class A logistics properties in the proximity of transportation hubs is high, and that keeps rental levels up.

The cost of logistics premises in Norway is almost twice as high as it is in Sweden, which has led to an increasing number of operators considering moving their operations across the border. This, combined with competition between developers on lease contracts, led to downward pressure on rental levels during the end of the 2000s. However, at the end of 2012 and throughout 2013, logistics rents have once again started to increase.

In the second quarter of 2013, Tollpost Globe AS signed a 15-year lease with Bulk Property on Fuglåsen at Langhus in the municipality of Ski. Tollpost Globe will lease a logistics center of about 12,400 m². Construction will start in the fall of 2013 and the new facility will be completed and fully operational in June 2014. The location, on Fuglåsen, will benefit from good infrastructure, which includes connections to the E6 and E18 motorways and the Oslofjord tunnel as well as the train terminal at Alfaset. ■

DENMARK

Denmark has a population of 5.6 million, which has increased by an average of 0.5% per year over the past five years. The Greater Copenhagen area accounts for about 22% of the Danish population and this has grown by an average of 1.3% per year over the past five years. In 2012, Denmark had a GDP of USD 314 billion, about USD 56,200 *per capita*. The unemployment rate in Denmark rose significantly in 2009 and peaked in 2010. The recovery started during the second half of 2012 and the Labour Force Survey for Q2 2013 showed that unemployment had fallen to its lowest level since 2009. The unemployment rate in June 2013 was 6.9%, a decrease of 1.0% compared to June 2012.

The Investment Market

Liquidity on the Danish transaction market continued to be low in 2012 compared to the years before the financial turmoil of 2008-2009, with a total volume of DKK 16.5 billion. Transaction volume for the first six months of 2013 was relatively high compared to the same period in the previous four years. However, the volume was largely due to one sale – that of the second-largest shopping center in Denmark, Rosengårdcentret, at a total price close to DKK 3 billion, which will go down in history as the biggest deal in Denmark to date for a single property. The buyer was one of the European market leaders in the field of inner-city shopping centers, ECE.

The main focus for most investors in both the office and retail investment markets is prime properties with long

leases and strong tenants. These types of properties are easily traded in the current market, but the supply is fairly low. In the secondary markets, investors estimate the risk premium to be very high and the price difference between what the buyer will pay and what the seller expects is fairly wide. As a result, the number of trades in this sector is very low. However, there are now signs that the difference in price expectations is starting to narrow.

The hotel investment market in Denmark has historically been a very illiquid market, where the companies that operate a hotel also own them. This was also the case when the Norwegian hotel chain Nordic Choice Hotels acquired two hotels in Copenhagen from the struggling hotel chain First Hotels. The hotels were bought at an estimated total price of DKK 1.1 billion, reflecting a price per room of around DKK 1.65 million. The transaction also included Hotel Amaranten in Stockholm, Sweden.

After years of renting the property on Teglholm Allé 16, the Danish television station TV2 decided to purchase its residence in the Copenhagen area of Sydhavn. The building contains 13,300 m² of office space and was bought at a total price of DKK 350 million from MP Pension.

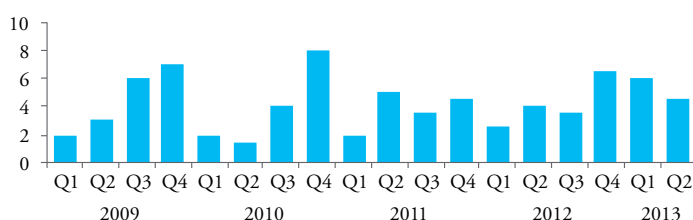
The Office Market

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, Frederiks-

List of Transactions - Top 5 - Greater Copenhagen Area (Q2 2013)

No.	Object	Location	Buyer	Seller	Property Type	Value (DKK million)	Size (m ²)	Yield (%)
1.	First Hotel Skt. Petri and First Hotel Vesterbro	Copenhagen (CBD)	Home Capital	Host	Hotel	1,100	31,500	6.0%
2.	Essex - HSH portfolio	Greater Copenhagen	Niam	Essex Invest	Residential	1,050	43,700	4.5%
3.	Goldschmidt portfolio	Greater Copenhagen	Jeudan	M. Goldschmidt Ejendom	Mixed	816	40,000	5.3%
4.	Tegholm Allé 16	Copenhagen (Sydhavn)	TV2	MP Pension	Office	350	13,300	5.25%
5.	Skovlytoften	Copenhagen (Holte)	Niam	Essex Invest	Office and others	120	12,100	7.8%

Transaction Volume Quarterly | Denmark (DKK billion)



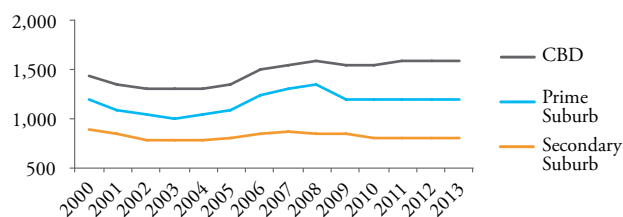
Greater Copenhagen - Office (M m²)



Source: Newsec

Source: Newsec

Copenhagen Office Rent (DKK/m²)



Source: Newsec

List of Office Projects - Top 5 - Denmark (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	Project start	Expected date of completion
1.	Nordea	Copenhagen	Nordea	40,000	2012	2016
2.	Ferring Pharmaceuticals	Copenhagen	Skanska	30,000	2013	2016
3.	Microsoft	Copenhagen	Danica Pension	29,000	2013	2016
4.	Scala	Copenhagen	EjendomsSelskabet Norden	23,000	2012	2015
5.	Bestseller	Aarhus	Bestseller	22,000	2012	2014

List of Retail Projects - Top 5 - Denmark (Q2 2013)

No.	Object	Location	Owner/Developer	Size (m ²)	Project start	Expected date of completion
1	Citycenter Broen	Esbjerg	TK Development	47,000	2013	2015
2.	Slagterigrunden	Odense	Steen & Strøm	45,000	2012	2015
3.	City 2 - Designer Outlet	Høje-Taastrup	Danica Pension	20,000	2012	2014
4.	Rødovre Centrum	Copenhagen	Rødovre Centrum	13,500	2012	2013
5.	Taastrup Torv	Taastrup	NREP	12,000	2012	2013

berg, 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 5.0 million m² and the total office stock in the Copenhagen area amounts to about 11.8 million m².

New Supply

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

The amount of new construction completed in 2012 was approximately 140,000 m². There are some big projects in the pipeline. In 2013 and 2014, the level of construction of new offices is expected to be higher, about 180,000 m² and 200,000 m², respectively. This should however be seen in the context of the very low activity between 2008 and 2010 and may be a result of a catching-up effect. Furthermore, almost no developments are currently being undertaken on a speculative basis. Many of the projects are purpose built for a single tenant.

The economic crisis has forced companies to cut their costs and reconsider how they are organized. Hence many businesses have become aware of the substantial cost-saving potential of

space reductions and space utilization. Low interest rates, combined with the increased demand for up-to-date, space-efficient and flexible office premises, have led to companies deciding to build their own office headquarters. As an example, Ferring Pharmaceuticals' current premises in Ørestad of 16,000 m² are too small, and the firm has decided it needs a larger office. The construction of the 30,000 m² office property – in Scanport, a new business district south of Copenhagen – is expected to be completed in 2016.

Microsoft in Denmark is consolidating all its activities in a newbuild property in Lyngby, north of Copenhagen. The 29,000 m² new Denmark headquarters is scheduled to be finished in 2016 and will be located opposite the shopping center of Lyngby Storcenter.

The Occupier Market

As investors have remained fairly risk averse and continue to look for low-risk properties, yield and rental levels have remained at the same levels as in the previous couple of quarters. The vacancy rate for office properties has shown a flat to slightly rising trend in 2013 so far, which is expected to abate gradually in the future if the slow revival of the economy continues.

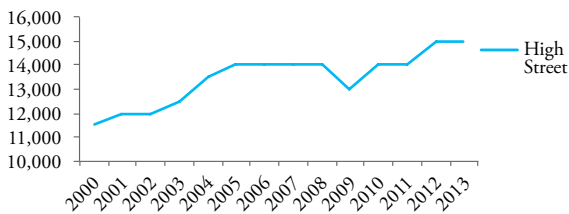
Office rents in Copenhagen CBD during 2009-2010 were about DKK 1,550 per m². During 2011, the occupier market in Copenhagen improved slightly and rents rose to DKK 1,600 per m². They have since remained at this level. The office vacancy rate in Copenhagen CBD increased slightly during 2012, ending the year at just above 9%, which was also the vacancy level during the second quarter of 2013. The vacancy rate still represents a surge of more than six percentage points from the low level of about 3% recorded in 2007, and is primarily attributable to the economic downturn.

Copenhagen Office Vacancy



Source: Newsec

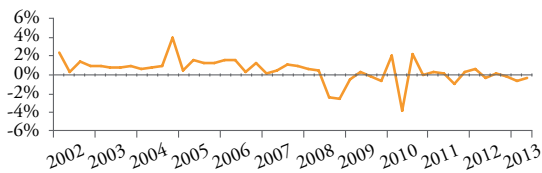
Copenhagen Retail Rent (DKK m2)



Source: Newsec

Retail Trade Turnover | Denmark

(Percentage change on previous period)



Source: Eurostat

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 regulated 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 the Greater Copenhagen area.

In Denmark, household finances are still impaired by the residential property bubble of recent years. However, Nordic households in general are fundamentally strong and private consumption is ex-

pected to be one of the most important growth engines during coming years.

Various items of news of an improved Danish economy were communicated during the summer of 2013. Consumer confidence reached its highest level in five years due to rising real wages and stabilization in the housing market. Price developments in the housing market are largely correlated with consumer confidence. However, there are significant regional differences in the development of prices, and especially in Copenhagen prices are now rising at a fast pace. Another positive factor is the slowdown in inflation, which resulted in positive real wage growth after several years of declining consumer purchasing power.

New Supply

TK Development is planning to build a large shopping center in Esbjerg, the fifth largest city in Denmark, which is expected to be completed in 2016. The center is centrally located in Esbjerg, next to the train and bus stations, and there will be around 70 new shops covering the 47,000 m². More than 80% of the lettable area is already let, with anchor tenants like H&M, Gina Tricot and Kvickly.

The Occupier Market

In 2009, High Street retail rents fell slightly. They recovered in 2010 but then stayed flat up until 2012. Strong demand for prime locations from occupiers throughout 2012 resulted in a rental increase of DKK 1,000 per m², and at year-end it reached DKK 15,000-18,000 per m², excluding operating costs and taxes. During the first half of 2013, High Street retail rents remained stable. As a result of last year’s rental increase, investor interest in these properties is growing; there is especially a growing interest from foreign investors. ■

NORDIC INSIGHT

MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

GENESTA PROPERTY NORDIC

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

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