# NORDIC INSIGHT

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MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS


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# HOW DO SAFE-HAVEN MARKETS COMPARE?

**Investors have maintained a risk-averse approach to real estate investing since the onset of the global financial crisis in mid-2007 and the subsequent downturn in real estate markets.**

During the boom, investor behavior was marked by an emphasis on absolute returns and an inadequate attention to risk. The severity of the financial crisis proved a rude re-awakening to pricing risk. In the aftermath, investor activity has been characterized by a flight to safety in prime, income-secure assets in perceived safe-haven markets. This strategy has endured for almost five years, reflecting the severity of the financial crisis and the prolonged uncertainty pervading in financial markets.

As well as being constrained by style, investment strategies are narrow in their geographic scope. In 2011, more than 80% of real estate transactions occurred in Europe's three major economies and the Nordics. Yet, over the same period, they accounted for just over 60% of European trade area GDP.

> "INVESTOR ACTIVITY HAS BEEN CHARACTERIZED BY A FLIGHT TO SAFETY IN PRIME, INCOME-SECURE ASSETS IN PERCEIVED SAFE-HAVEN MARKETS"

On this basis, allocations to Germany and France are neutral, while those to the United Kingdom and Nordics are up-weighted. At the beginning of this year, investor sentiment was shifting further towards German and Nordic markets. While strong appetite for real estate in the United Kingdom and France remained, INREV (2012) reports that less than half of investors were planning to increase allocations. In contrast, 70% of investors were expecting to up-weight allocations to Germany and further up-weight allocations to Nordic real estate.

Certainly, over Q1 2012 there was a marked slowdown in investment volumes in France and the United Kingdom, but over Q2 2012 these markets accounted for the largest share of investment activity. However, this is not indicative of a change of appetite, rather it reflects a shift in the underlying investor base. European intra-regional and domestic investors may have favored Germany and the Nordics, but in response to the escalating euro crisis many have deferred investment over H1 2012. Inter-regional investors, notably from Asia, have been more active and have focused their activity on the United Kingdom and France. Driven by intra-regional investors, investment volumes in the Nordics remained robust in this context and continue to represent an over-weighting relative to their share of GDP. While investment volumes decreased year-on-year over Q2 2012, activity became even more concentrated within safe-haven markets, with the United Kingdom, France, Germany and the Nordics accounting for 89% of transactions by value.

Is this shift in investor appetite rational? The moderation in intra-regional investor appetite for real estate in the United Kingdom and France at the beginning of 2012 is widely considered to reflect the strong pricing of prime real estate in London and Paris that occurred over 2011. Yet, this doesn't explain up-weightings in Germany and the Nordics, where strong pricing relative to the peak has also occurred or, indeed, why investors expect the markets with the strongest allocations to deliver the lowest absolute returns (see Figure 1). Differences in the structural components and drivers of economic, investment and market risk between the accepted safe-haven markets may better explain investor behavior. In this article, we compare risks in accepted safe-haven markets across three principal components, namely;

- Economic structure and prospects;
- Real estate investment market risks; and,
- Real estate market fundamentals and prospects.

**Economic Structure and Prospects**

Since end-2010, economic growth forecasts have been subject to a series of downgrades as the sovereign debt crisis revived and intensified. Figure 2 illustrates IMF-expected GDP growth over the short term (end-2011 to end-2013f) and medium term (end-2013f to end-2016f) as forecast from fall 2010 to spring 2012. Downward revisions are greatest for near-term growth to end-2013. Importantly, the reduction in short-term growth is vanquished over a five-year forecast horizon, not merely deferred. *[See Figure 2]*

However, snapshots of growth expectations tell us little about underlying risk and uncertainty. With the financial crisis stemming from a debt bubble, assessing the exposure of markets to debt and their corresponding pressure to deleverage is fundamental. Equally, analysis of the structure of economies and their growth components reveals their

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exposure, and flexibility to respond, to further financial shocks.

Debt and de-leveraging are at the epicenter of the financial crisis. Its aftershocks continue to reverberate as Europe struggles to effectively manage exposure to GIIPS nation (Greece, Ireland, Italy, Portugal, Spain) sovereign debt and the wider de-leveraging process. Figure 3 shows debt as a percentage of GDP broken down by economic sector for each market. The financial sector's debt profile provides an indication of its solvency and stability in the face of a renewed liquidity crisis. Clearly, Denmark and the United Kingdom have the highest ratios of debt to GDP. *[See Figure 3]*

While the scale of debt indicates the pressure to de-leverage, exposure to the risk of GIIPS nation sovereign debt may be of even greater importance. This may be assessed using a three-step filter. First, direct exposure to GIIPS sovereign debt. Second, the exposure of GIIPS banks to sovereign debt. Third, the exposure of safe-haven financial institutions to GIIPS banks. According to Asymptometric, at circa EUR 700 billion, France has the highest exposure, followed by Germany (circa EUR 530 billion) and the United Kingdom (circa EUR 315 billion). The Nordic markets have a very low exposure (amounting to circa EUR 35 billion for Sweden and Denmark combined), shielding them from the direct impact of haircuts on economic value. However, they are not immune to the impact of any outright default.

Within markets, the impact of de-leveraging is further driven by the range of sectors under pressure. Economies with high government debt ratios are under pressure to de-leverage and are implementing austerity measures to reduce debt ratios. When combined with high ratios of household debt, such austerity measures have the capacity to choke off growth, increasing the risk of economic stagnation. A recent study by McKinsey (2012) considers the financial crisis in Sweden and Finland in the early 1990s. It suggests that both economies recovered due to economic policy stimulus, enabled by healthy current account surpluses. Presently, with all sectors under pressure to de-leverage in the United Kingdom, there is a lack of headroom for expansionary policy, increasing the risk of a 1930s-style depression. In contrast, while Sweden's overall debt burden appears high, its fiscal debt is modest. This facilitates the use of greater policy stimulus, which has the potential to reduce debt burdens through growth.

Structural differences are also evident across the components of economic growth (see Figure 4). The Nordics and Germany are the largest trading nations, with both exports and imports accounting for the largest GDP ratios. This provides greater economic diversification in comparison to France and the United Kingdom. Moreover, with exports exceeding imports, net trade provides a positive contribution to economic output and delivers a current account surplus (see Figure 5). Finland is the notable exception, with deteriorating economic conditions turning the current account balance negative until returning to positive territory in 2014. In comparison, the United Kingdom and France are forecast to remain in negative territory throughout the forecast horizon to 2016.
*[See Figures 4 and 5]*

The most recent crisis has largely been confined to Europe. At the beginning of the year, output results for the US economy were better than expected. Despite slowing growth in China and the subsequent deterioration in expectations for the United States, there is some evidence of de-coupling of the performance of global economic regions. European markets that are export led and that have strengthening export partners in extra-eurozone countries may benefit from stronger rates of growth. *[See Figure 6]*

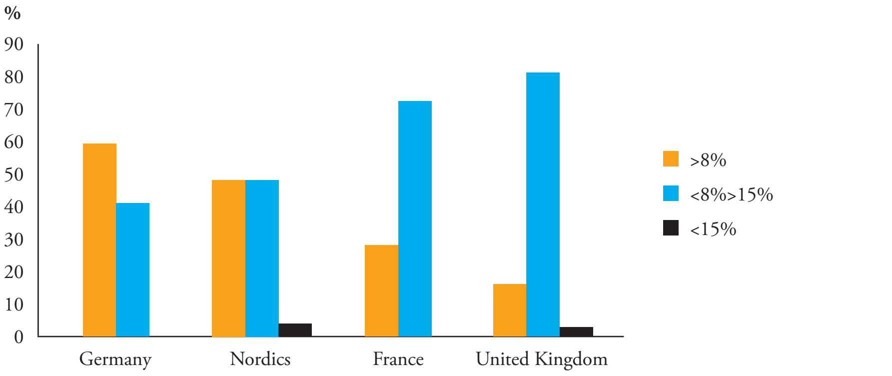
**Real Estate Investment Market Risks**

Prior to the financial crisis, real estate investment market risks were considered across a number of simple metrics, namely; market size, transparency and liquidity. However, the legacy of the financial crisis has demonstrated the complexity of the globalization of financial markets and its associated risks. While reference to market size as a basis for the neutral portfolio remains important, a legacy of the downturn has been a reassessment of investment market risk. A debt-fueled real estate bubble of some EUR 1 trillion was at the heart of the global financial crisis and the process of de-leveraging the sector brings additional risks. Those considered most fundamental are liquidity, the scale of excess real estate debt and exposure to the risk of market de-stabilization.

In the wake of the financial crisis and the downturn in real estate, a debt funding gap emerged affecting circa 45% of real estate loans. Initially, this reflected the equity gap created as real estate values declined, breaching loan-to-value thresholds. The debt funding gap has grown for out-of-the-money assets given minimal capital expenditure since 2007, resulting in further value decline. Despite this, banks adopted a managed workout approach – that is, until now.

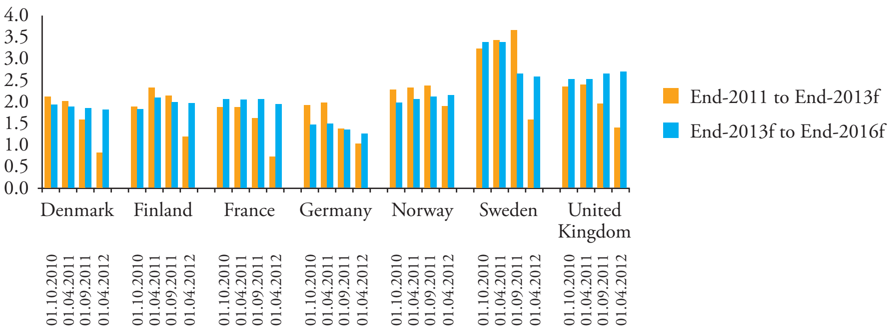
The need to bolster solvency in the short term amid heightened market uncertainty and in the medium term to meet the requirements of Basel III has rapidly increased the pressure to restructure bank balance sheets. With assets risk-weighted, reducing real estate exposure has a disproportionately favorable effect on capital ratios. Consequently, over 50 lenders have reduced, suspended and withdrawn from real estate lending.

Figure 1: Net Unleveraged IRR Expected by Investors



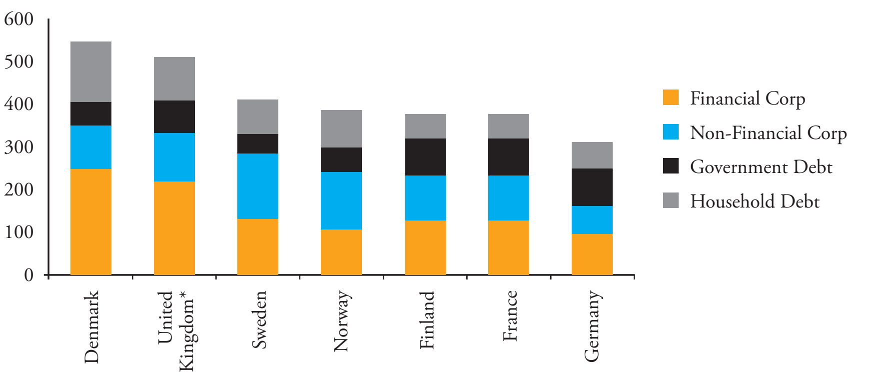

Source: INREV Investor Intentions Survey, 2012

Figure 2: GDP, End-2011 to End-2013f versus End-2013f to End-2016f at October 2010, April 2011, September 2011 and April 2012




Source: IMF, 2012

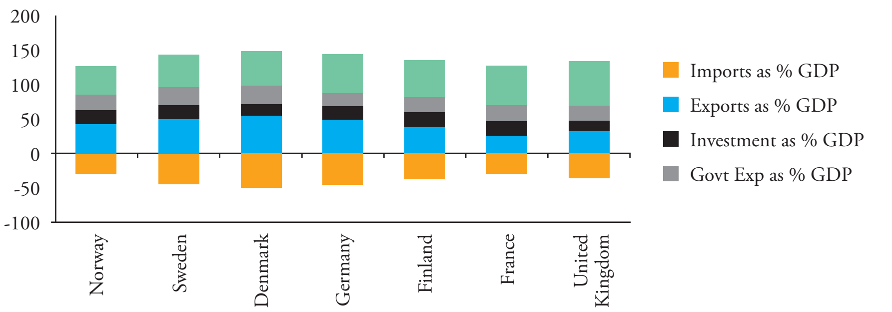
Figure 3: Debt as % of GDP by Economic Sector, 2011




Note: Includes all loans and fixed income securities. UK* in corporation debt adjusted for international banks domiciled in UK using McKinsey estimate.

Source: Eurostat, 2012

Figure 4: Components of GDP (%), End-2011




Source: IMF, 2012

Like investors, lenders prefer low-risk assets in low-risk markets. As a result, refinancing is a growing issue for the vintage of high-risk debt maturing over the next four years. Underlying assets are usually subject to the sharpest value declines and the highest slotting/Basel III risk weightings. In other words, their removal will disproportionately aid balance-sheet repair.

This escalates the risk of a market flood of asset disposals by banks, or by those purchasing loan books. Of course, the risk of market de-stabilization is not evenly spread across Europe. Within safe-haven markets, the greatest exposure is in the United Kingdom, both by absolute volume and relative to stock. Exposure in Germany is more limited in scope, being concentrated in large High Street and residential portfolios. Excepting Denmark, the Nordics and France have very low exposure absolutely or relatively, suggesting a low risk of market de-stabilization.

### Real Estate Market Fundamentals and Prospects

In the aftermath of the financial crisis, real estate markets entered a synchronized downturn, regardless of underlying fundamentals. This reflected heightened uncertainty, given financial market opacity and fear of contagion. By end-2010, greater diversification in market cycles emerged, with peripheral markets continuing to contract as core and northern European markets began to recover slowly. Demand side drivers continue to reflect differences in economic structure and performance, but risk aversion remains pervasive. Development finance remains scarce and costly across all markets, impairing supply response. For the strongest markets, this has the effect of extending and de-risking the cycle.

In part, prospects reflect where markets were when the music stopped in 2007. Following the downturn, occupier demand evaporated as business confidence plummeted and all European markets experienced rental decline. Unsurprisingly, the decline was deepest in those markets that previously experienced the strongest prime rental growth and in which the supply side response was already well underway. Importantly, such supply was increasingly being driven by strong investor demand fueled by the debt bubble, rather than being stimulated by underlying occupier demand. Other markets had only begun to shift from recovery to growth, with limited supply side response, including Munich, Stockholm, Helsinki and Paris.

The virtual elimination of speculative development across many markets has helped to erode vacancy. In Stockholm, Oslo and the London office markets, vacancy rates have fallen beneath their long-term average. Within Stockholm's prime CBD, vacancy rates have fallen below 3%. Net additions to stock across markets remain low and predominantly non-speculative, providing a cap for vacancy rates and lowering downside volatility into at least the medium term. Demand is expected to outpace supply across these selected safe-haven markets, with the exception of oversupplied Frankfurt and Paris La Défense. This is despite very modest GDP growth and expectations of increasing unemployment in the short term, notably the United Kingdom.

Nevertheless, rental growth expectations remain modest over short- and medium-term horizons. The Investment Property Forum's consensus forecasts indicate that on a five-year annualized basis London's West End, Oslo, Stockholm, Paris CBD, London City and Munich have the strongest rental growth expectations owing to low availability, a more diversified occupier base and more constrained supply. However, such forecasts are below long-term trends. With the exception of Oslo, expectations have deteriorated over H1 2012 and uncertainty underlying them has widened. Occupiers remain cautious and in the most undersupplied markets growth is now spreading to good quality submarkets while prime rents have stabilized.

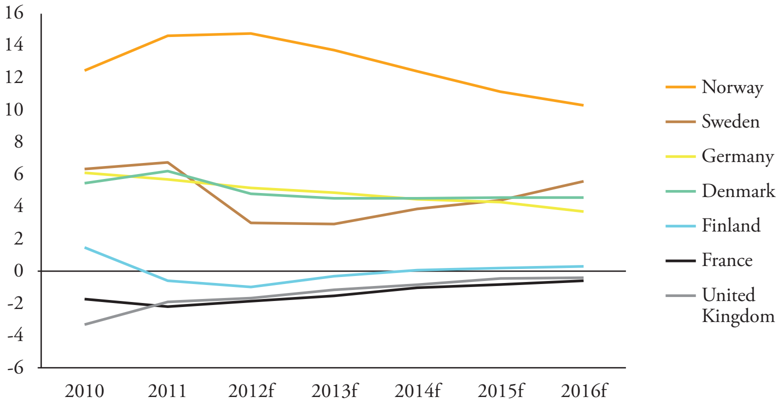
Historically, London West End, Stockholm, Oslo and Paris CBD have been the most volatile rental markets. On a risk-adjusted basis, rental growth per unit of such volatility is weaker than that in Copenhagen, Helsinki and Munich. However, given that the availability of development finance is expected to weaken further over the forecast horizon, downside volatility will be curtailed. Thus, risk-adjusted rents based on historic rental volatility are likely to overestimate downside risk.

### Is Investor Behavior Rational?

In terms of country allocations, yes, it is. Using standard scores, a risk-averse prospects index is developed (see Figure 7). Using selected metrics, this measures the relative performance of perceived safe-haven markets and peripheral economies across the three risk dimensions discussed. Economic risk metrics encompass growth expectations, debt exposure and economic diversification. Investment risks consider liquidity, real estate debt and risk of market de-stabilization. Real estate risks include supply metrics, demand drivers and near- and medium-term growth expectations. Clearly, perceived German and Nordic safe-haven markets are the most sheltered ports. Stockholm and Oslo are the strongest performers on the risk-averse prospects index, while Helsinki and Munich also perform well. *[See Figure 7]*

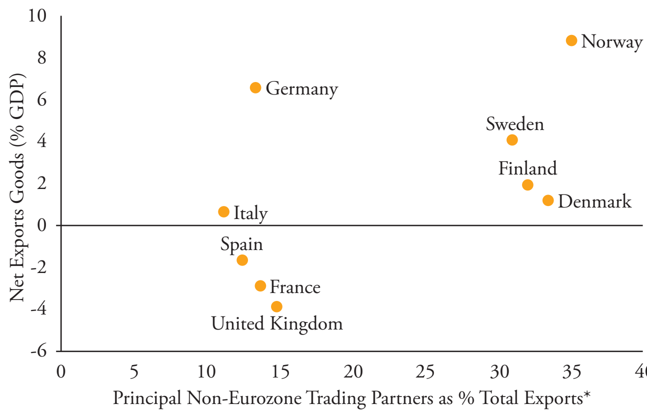
Such differences in the underlying risk profiles of perceived safe-haven markets suggest that there should be some variation in the selection of the most appropriate investment strategy across markets. In particular, the virtual absence of speculative development finance has disabled supply risk in the strongest markets, protecting downside risk by extending the cycle. By greatly reducing the risk of market timing for tenant engineering and/or repositioning strategies, this supports more active investment styles that can leverage asset management expertise in the strongest markets. ■

Figure 5: Current Account Balance as % GDP, 2010 to 2016f




Source: IMF, April 2012

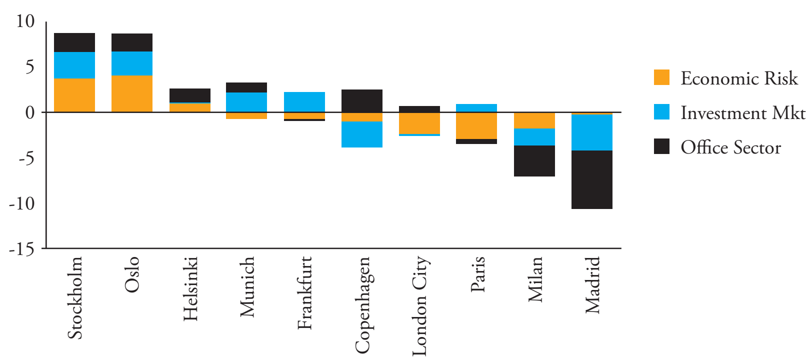
Figure 6: Net Exports Goods as % Real GDP versus Non-Eurozone Trading Partners




*Principal trading partners defined as largest six markets by value of exports

Source: Genesta Real Estate; IMF, 2012; Economywatch.com, 2012

Figure 7: Risk-Averse Prospects Index




Source: Genesta Real Estate, 2012

# IS A COMEBACK POSSIBLE?

## THE LONG-TERM EFFECTS ON CONSUMPTION FOR SWEDISH CITIES THAT ARE SUBJECT TO LARGE DECLINES IN LABOR DEMAND – THE CASE OF SEVEN CITIES

On the back of a contrarian perspective on investments, we had a brief look last year at the acquisition of a retail property in Trollhättan, the home city of Saab, the now defunct automobile manufacturer. At the time, Saab's production had already been at a standstill for more than two months, and a full default was in our view imminent. While it was unclear whether it would take one week or five months, we were convinced that the days of SAAB, as we had known the company until then, were over. As many as 3,000 people who worked for Saab in Trollhättan were expected to lose their jobs, and another 3,000 people were expected to lose their jobs at local subcontractors. For a city of less than 50,000 inhabitants, 6,000 lost jobs is a big problem. Because of the imminent default, demand for real estate investments in the city was very low, and this could have created an investment opportunity.

In the end, the investment was not undertaken. However, prior to reaching the decision not to invest, we had the opportunity to analyze in-depth the question of what happens to a city that has a high concentration to one single employer or industry when that single employer or industry rapidly declines or ceases to be. Is local consumption left largely unscathed, or does it go off a cliff? How likely was it that Trollhättan was facing the same fate as that of Detroit?

Rather than come up with a purely theoretical view on what Saab meant for Trollhättan, we decided to look at historical examples in Sweden. What does history tell us about a city's possibilities of staging a comeback?

### The Seven Cities

We based our study on seven cities. Choosing which ones to use was not so easy. As always with comparisons, you have a trade-off between what is relevant from a cross-sectional point of view and what is relevant temporally. All other things being equal, cities of similar size and of geographical proximity were given priority. We also tried to pick recent events, although they needed to be sufficiently far back in the past that we could study what happened in the city ten years after the event occurred.

In the end, we decided to look at the following seven comparisons:

- **Uddevalla**: A population of approximately 52,000 as of 2011. Uddevalla's shipyard was shut down in 1986; 2,500 people were laid off and another 2,000 were laid off by subcontractors. In addition, the local military regiment was shut down in 1992. Thus, from 1986 to 1992, Uddevalla suffered massive lay-offs. Uddevalla was also chosen for its geographical proximity to Trollhättan.

- **Lidköping**: A population of 38,000 as of 2011. Lidköping suffered from the gradual decline of porcelain manufacturing during the 1990s; this then accelerated during the early 2000s and led to large lay-offs during the middle of the last decade, especially in 2004 and 2006. Lidköping was also chosen for its geographical proximity to Trollhättan.

- **Kalmar**: A population of 63,000 as of 2011. In Kalmar, several major factories were shut down between 1981 and 2005, with major lay-offs by Volvo in 1994 and Kalmar Verkstad in 2005.

- **Landskrona**: A population of 42,000 as of 2011. In 1982, the Öresundsvarvet shipyard was shut down and 1,900 employees were let go. In addition, large lay-offs were made by a number of subcontractors. The lay-offs suffered by Landskrona as a proportion of the overall population were probably the worst suffered by any of the seven cities.

- **Östersund**: A population of 60,000 as of 2011. In Östersund, three local military regiments were downsized during the 1990s and shut down in 2004. 1,400 employees were let go.

- **Västerås**: A population of 137,000 as of 2011. Västerås is a city characterized by large industries that have been in decline for decades. This has caused major uncertainty in the labor market.

- **Eskilstuna**: A population of 96,000 as of 2011. Eskilstuna is a smaller example of Västerås, i.e. a city that has had several major industries that have been in decline for decades. This has resulted in layoffs and uncertainty in the labor market.

### Getting the Comparison Right

How do you compare consumption over time for smaller Swedish cities? Basically, for cities of this size, you cannot directly find consumption data that dates as far back as we would like. Instead, we had to settle for a proxy.

Fortunately for us, Swedes are very fond of taxing and taxes. Hence, the amount of tax paid *per capita* can be found for smaller cities going far back using the help of Statistics Sweden. We use the amount of income tax paid *per capita* as a proxy for income *per capita*, and the amount of income *per capita* as a proxy for the amount of consumption *per capita*.

We are not interested in absolute changes in consumption for these cities. Rather, we are more interested in how they have performed as a result of the event they have been subjected to. Thus, we look at *how consumption has changed in the cities, relative to the change in Sweden at large*. For example, most cities underwent a significant decline in the early 1990s because of the Swedish banking crisis. A decrease in consumption *per capita* in the seven cities during that period was to be expected; consumption fell everywhere. However, it is more interesting to know if it fell more in the seven cities than it did in the country at large.

Further, we would like to know about consumption in total, not just consumption *per capita* in total. To do so, we also look at the change in population during the specific period. Again, we look at the change in relative terms, i.e. how the population has changed relative to the change for Sweden as a whole.

### Over What Time Period to Test?

Just as with most other choices that you have to make in a study like this, arguably one of the most important things to avoid in the choice of the time period to test are all forms of data mining. Thus, prior to undertaking any analysis, we decided that we were going to analyze the relative changes over a three-year, seven-year and 15-year horizon. These time horizons were chosen relatively randomly, but were decided on before we could see any results, and were applied consistently across the board.

We also had to decide what date we should start to measure from. For cities where one major firm went bankrupt in one particular year, this choice was comparatively easy. For cities that have had an industry in a more gradual decline, the choice was harder. In the latter case, a date was used that was perceived to be the team's best guess at a fulcrum for the lay-off episode in the subject city's history.

### The Cities Show Resilience

The results show that Swedish cities are more resilient than we would have thought. Out of the seven cities, three cities showed no significant underperformance compared to Sweden at large. Another showed only a slight underperformance. Of the remaining three cities, only one, Landskrona, was really hit hard by the lay-offs. Landskrona is somewhat special in that its concentration to one single industry and employer was extreme (but that is not to say that Trollhättan's exposure to Saab is also not extreme!).

Tables show the results of our studies.

### Social Model Under Change

All through the 1980s and 1990s, Sweden was a country that was very focused on the welfare state. People who were laid off from work received substantial benefits and subsidies, allowing them to keep consuming at levels not too dissimilar from those before. During the 2000s, and especially since the right-of-centre alliance gained control in 2006, the focus on the welfare state has subsided, and there is now a much greater difference in consumption between those who are employed and those who are not. Thus, we think it is fair to assume that consumption today in cities is more sensitive to large changes in demand for labor than they were just 20 years ago. One should thus be careful in extrapolating the results too far.

### What Does It Mean for Investment Strategy?

It is our view that the market tends to overestimate the risks associated with a default by a major employer in a city. For someone who can hold on to an investment for a longer period of time, it would thus make sense to invest when a default is imminent; the risk-adjusted return for such a strategy is likely to be rather favorable.

Pursuing such a strategy might not make sense in the short term, when the general economy is weak and the outlook is challenging, but in the longer term this investment house could definitely envision pursuing such strategies. ■

Table 1: Change in Consumption *per Capita* Attributable to the Event (deviation from country trend)

| City | Change in Consumption *per Capita* Attributable to Event (deviation from country trend) | | | The Team's General Perception of Effect on Consumption *per Capita* |
|---|---|---|---|---|
| | Three-year horizon | Seven-year horizon | 15-year horizon | |
| Uddevalla | –100 bps | –400 bps | –700 bps | Significant relative decline |
| Lidköping | 0 bps | –200 bps | n/a | No discernible effect |
| Kalmar | –200 bps | –200 bps | –100 bps | No discernible effect |
| Landskrona | –500 bps | –600 bps | –900 bps | Very significant relative decline |
| Östersund | 0 bps | –100 bps | n/a | No discernible effect |
| Västerås | 0 bps | 0 bps | 0 bps | No discernible effect |
| Eskilstuna | +500 bps | +500 bps | +100 bps | No discernible effect |

Table 2: Change in Population Attributable to the Event (deviation from country trend)

| City | Change in Population Attributable to Event (deviation from country trend) | | | The Team's General Perception of Effect on Population |
|---|---|---|---|---|
| | Three-year horizon | Seven-year horizon | 15-year horizon | |
| Uddevalla | 0 bps | +100 bps | +100 bps | No discernible effect |
| Lidköping | 0 bps | –200 bps | n/a | Slight decline |
| Kalmar | +100 bps | +200 bps | +100 bps | No discernible effect |
| Landskrona | –200 bps | –300 bps | –100 bps | Significant relative decline |
| Östersund | –100 bps | –300 bps | n/a | Significant relative decline |
| Västerås | 0 bps | –100 bps | –100 bps | No discernible effect |
| Eskilstuna | –200 bps | –300 bps | –600 bps | Significant relative decline |

Table 3: Change in Total Consumption Attributable to the Event (deviation from country trend)

| City | General Perception of Effect on Consumption *per Capita* | General Perception of Effect on Population | Effect on Total Consumption |
|---|---|---|---|
| Uddevalla | Significant relative decline | No discernible effect | **Significant relative decline** |
| Lidköping | No discernible effect | Slight decline | **Slight decline** |
| Kalmar | No discernible effect | No discernible effect | **No discernible effect** |
| Landskrona | Very significant relative decline | Significant relative decline | **Very significant relative decline** |
| Östersund | No discernible effect | Significant relative decline | **Significant relative decline** |
| Västerås | No discernible effect | No discernible effect | **No discernible effect** |
| Eskilstuna | No discernible effect | Significant relative decline | **No discernible effect** |

# CONSUMER ELECTRONICS RETAILERS IN SWEDEN – MORE PAIN AND DEFAULTS TO COME

During the last five years, profit margins in consumer electronics retailing in Sweden have been very low. Out of seven major players that were around two years ago (Eliganten, SIBA, Expert, Media Markt, NetonNet, PC City and OnOff), two of them — PC City and OnOff — have had to throw in the towel. In addition, NetonNet has been acquired by its rival SIBA. All of the remaining players are posting losses. According to the Swedish newspaper *Dagens Industri*, the four largest consumer electronics retailers posted cumulative losses of approximately SEK 2 billion from 2006 to 2010.

At the heart of the retailers' troubles is a price war. Basically, all of the retailers have strategies built up around low cost and there is relentless marketing by each of the firms about how they are the cheapest alternative. Not a single one is advertising good quality or high levels of service. It begs the question as to whether competing purely on price can be sustainable in the long run?

Despite the dire outlook, some chains are still expanding. Media Markt entered the Swedish market in 2006 when it opened its first store in Heron City in southern Stockholm. Since then, Sweden has consistently been in the red for the firm, and accounts for almost half of the SEK 2 billion losses suffered by the biggest four retailers during the 2006–2010 period. Despite large and consistent losses since it first came to Sweden, Media Markt is continuing an aggressive expansion in Sweden, opening three to four new stores each year. One can only assume that Media Markt is pursuing a strategy of trying to kill the competition by means of aggressive pricing, in the hope of reducing

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"WE PREDICT THAT WE WILL SEE AT LEAST ONE MORE CONSOLIDATION, BANKRUPTCY OR MAJOR RETREAT IN THE NEXT TWO YEARS"

competition and hence gaining more pricing power and higher margins when the competition has fallen away. However, so far the fruits of this strategy seem far off.

### Caveat Emptor

We think that the consumer electronics retailing landscape will continue to change. We predict that we will see at least one more consolidation, bankruptcy or major retreat in the next two years. One possible scenario is a default by SIBA. SIBA's CEO Fabian Bengtsson has repeatedly had to defend his company against market rumors of pending insolvency. The company's loss of SEK 70 million for 2011 marked its fourth consecutive year in the red. Turnover fell from SEK 3 billion in 2010 to SEK 2.6 billion in 2011.

Or will Media Markt cut its losses and decide that expanding into Sweden was not so wise after all? Did it underestimate the fight that the Nordic companies would put up? Can it endure at least another five years in the red, which is probably what is required to make a serious dent in the competition?

We know one thing for sure. The pricing of rental agreements and cash flows from the consumer electronics retailing tenants needs to reflect the dire state of this industry if investing in them is going to make any sense. Buyer beware. ■

# SWEDEN

## DEFYING GRAVITY?

**Sweden continues to perform far better than most of its neighbors. But with the eurozone debt crisis likely to worsen, 2013 looks set to be a somewhat tougher year.**

At the start of 2012, the Swedish economy shrugged off the eurozone's mounting problems and expanded by a robust 2.3% during the first two quarters. Admittedly, the annual growth rate is still much weaker than in 2010. But by eurozone standards, Sweden has recently performed exceptionally well. *(See Chart 1.)*

Encouragingly, household spending should continue to grow at a solid rate in the second half of the year. As *Chart 2* shows, while consumer confidence has recently plunged in the eurozone, it has been rising in Sweden. There have been some tentative signs that employment growth may be accelerating again. *(See Chart 3.)* What's more, wages are rising in real terms and the full effects of the interest rate cuts by the Riksbank around the turn of the year are unlikely to have been fully felt.

But net trade, which has also been a key factor behind the recent bout of strong growth, is likely to provide the economy with less of a boost over the coming quarters. If we are correct and growth slows in Sweden's main export markets, the support from the external sector is likely to fade. *(See Chart 4.)* Needless to say, the slowdown could be exacerbated by the strength of the krona. *(See Chart 5.)*

What's more, the recent intensification of the debt crisis in the eurozone could discourage firms from investing. In Q2 2012, investment fell for the first time in five quarters and the recent slowdown in credit growth suggests that this may be more than a blip.

Given all this, we think that Swedish GDP will expand by a solid 2.0% this year, but we expect the potential knock-on effects on trade and sentiment from the worsening crisis in the eurozone to prompt growth to slow next year. Encouragingly, though, both the government and the Riksbank have scope to respond by loosening monetary and fiscal policy. We expect the latter to reduce interest rates to about 0.5% next year. Accordingly, unlike the eurozone, Sweden may avoid falling into recession. *(See Chart 6.)*

The moderation in economic growth already seen has been mirrored in a marked easing in the pace of commercial property rental value growth. Although Sweden is likely to avoid recession in 2013, GDP growth is likely to be below the trend levels that experience suggests is necessary to sustain rising rents.

Over the next 18 months, therefore, we think that rental values will stagnate and we would not be surprised if the uncertainty generated by the eurozone crisis led to some modest falls in office and industrial rents. *(See Chart 7.)* But a more positive trend should then begin to emerge during 2014.

We expect the weak occupier outlook to dampen investors' expectations for future rental value growth and stop *required* yields from compressing further in the near term. But with the spread between property yields and risk-free rates already at record highs, the outlook for property yields still looks reasonably favorable. ■

Chart 1: Swedish & Eurozone GDP (% y/y)

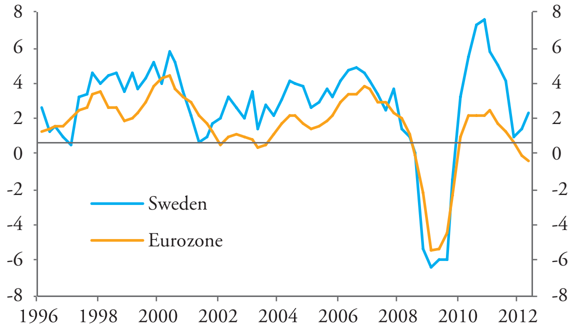



Chart 2: Swedish & Eurozone Consumer Sentiment

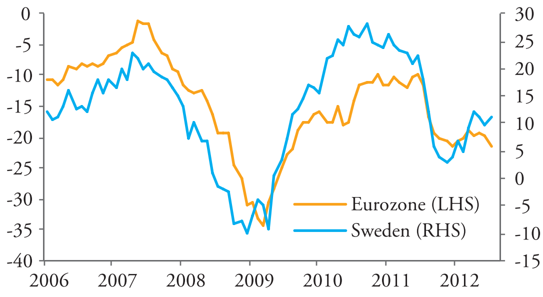



Chart 3: Swedish Employment & Unemployment Rate

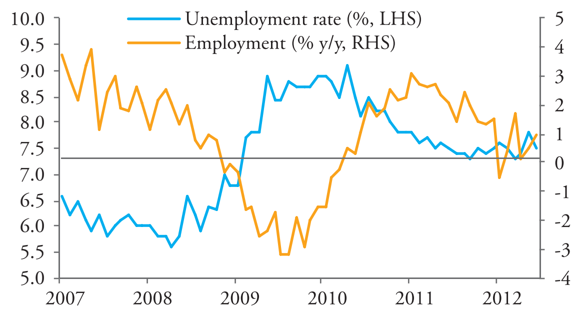



Chart 4: Swedish Exports & Trade-Weighted GDP

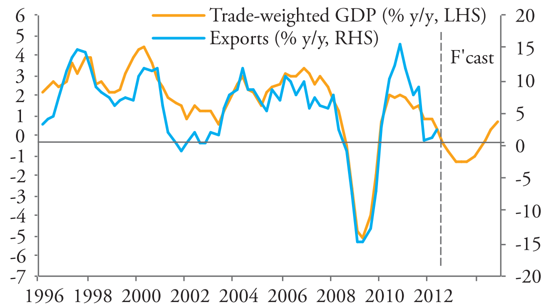



Chart 5: Krona Exchange Rate

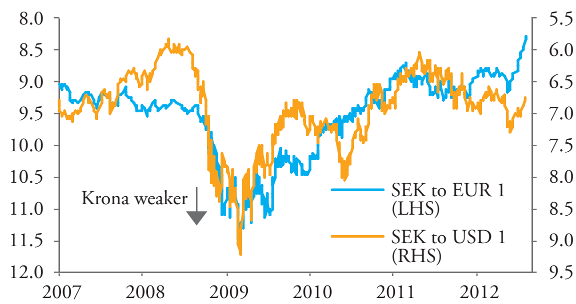



Chart 6: Swedish GDP

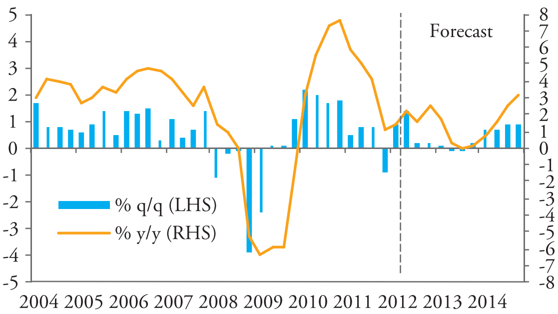
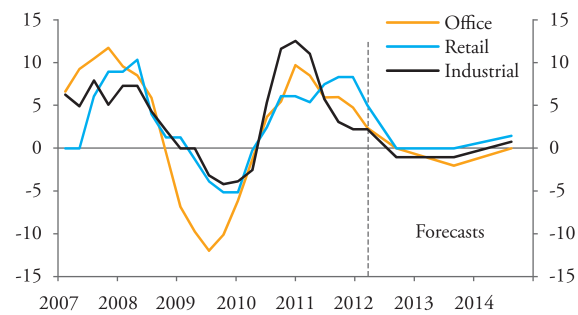



Chart 7: Stockholm Prime Rental Value Growth (% y/y)




Sources: Statistics Finland, Eurostat, European Commission, Property Agents, Capital Economics

# FINLAND

## UNLIKELY TO ESCAPE THE DEBT CRISIS UNSCATHED

**Finland is certainly not in the same dire straits as some of its eurozone counterparts. Nonetheless, the debt crisis may push the economy back into recession.**

At face value, Finland appears to be weathering the deepening eurozone debt crisis better than some of its neighbors. Admittedly, GDP fell sharply in Q2 2012, but this partly reflected one-off factors. At +0.6%, annual GDP growth was well above the equivalent eurozone figure of –0.4%. *(See Chart 1.)* And while survey-based measures of export orders remain weak by historical standards, they still point to modest positive export growth. *(See Chart 2.)*

Note, too, that if the eurozone debt crisis intensifies, resulting in some form of break-up, the direct effects on Finland will not be as large as elsewhere in the region.

After all, by the rest of the eurozone's standards, a relatively small share of Finnish exports goes to the rest of the eurozone. *(See Chart 3.)* And Finnish banks' financial exposures to the periphery are small in comparison to the other core economies. *(See Chart 4.)* Finally, Finland's healthy public finances mean that there is scope to loosen fiscal policy to boost demand.

Nonetheless, there are several reasons why we still think that Finland is unlikely to escape recession. For a start, the 2.7% quarterly rise in household spending in Q1 2012 overstates the health of households. Indeed, the sharp rise was mainly down to temporary factors such as increased car sales ahead of a tax hike in April. As *Chart 5* shows, surveys of consumer sentiment suggest that household spending will fall sharply in Q2 2012 and beyond.

Meanwhile, on past form, the European Commission's broader measure of business and consumer sentiment is now consistent with annual falls in GDP of around 3%, perhaps a sign that the ongoing eurozone problems are having adverse effects on confidence. *(See Chart 6.)*

The upshot of all this is that, while we think that Finland will perform better than the eurozone over the next couple of years, it will not likely escape recession. We have pencilled in unchanged GDP this year and a slight fall in 2013.

A renewed recession does not bode well for commercial occupier markets. Indeed, although not repeated in the second quarter, industrial rents dipped lower in the first three months of the year. The broad-based slowdown that we anticipate does not suggest that those falls will prove to have been a one-off, nor that they will be confined solely to the industrial sector.

That said, the Finnish economy is likely to perform much better than in 2007–2009, when GDP fell substantially. Thus, any falls in rental values are likely to be more moderate than in the last downturn. *(See Chart 7.)*

Normally, the uncertainty stemming from the eurozone would make investors more wary of smaller markets such as Finland. However, in an otherwise uncertain world, Finland is likely to see continued demand from international investors. ■

Chart 1: Finnish & Eurozone GDP (% y/y)

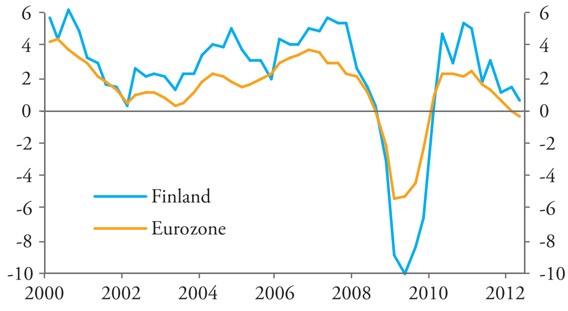



Chart 2: Finnish Exports & EC Export Orders Index

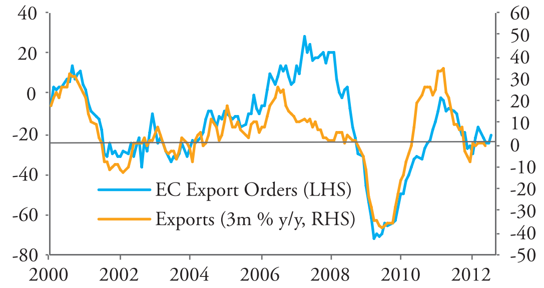



Chart 3: Exports to the Eurozone (share of total, %)

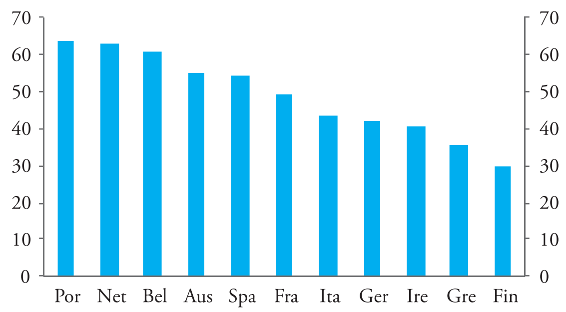



Chart 4: Banks' Exposure to the Periphery (% of GDP)

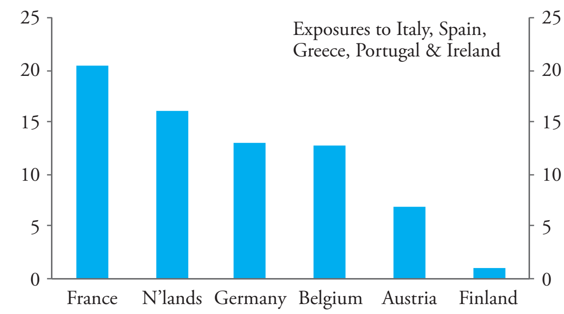



Chart 5: Finnish Household Spending & Consumer Confidence

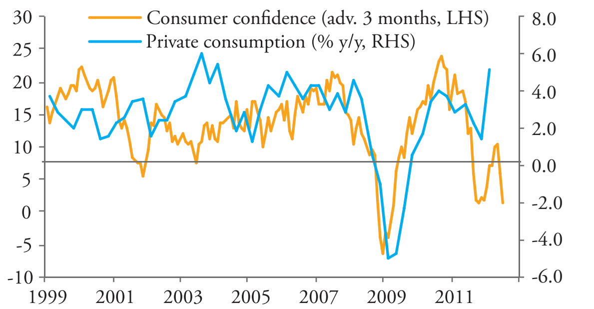



Chart 6: Finnish EC Economic Sentiment Indicator & GDP

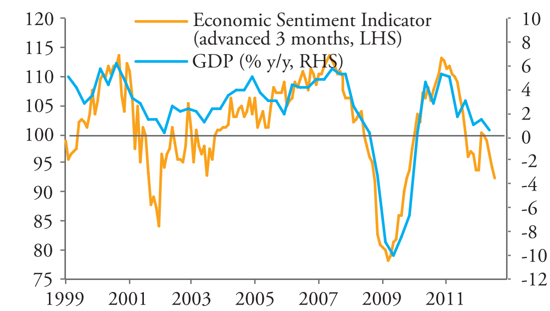
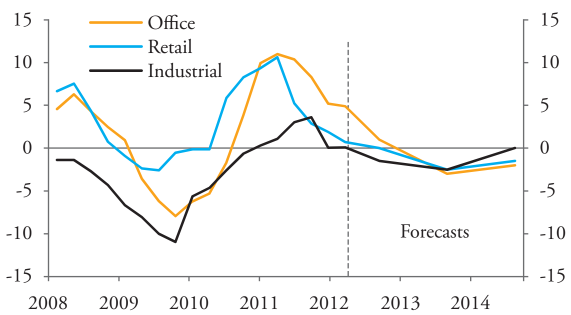



Chart 7: Helsinki Prime Commercial Property Rental Value Growth (% y/y)




Sources: Statistics Finland, Eurostat, European Commission, Property Agents, Capital Economics

# NORWAY

## STRONG DOMESTIC DEMAND UNDERPINNING RECOVERY

**The Norwegian recovery shows little sign of slowing. We expect Norway to remain one of the region's strongest performers over the next couple of years.**

Norway's broad-based expansion continued in Q1 2012. Overall and mainland GDP expanded by more than 4% on an annual basis. *(See Chart 1.)* Indicators of consumer spending have since continued to paint an encouraging picture.

A buoyant labor market and low inflation has resulted in strong real income growth for households, helping to sustain confidence despite the worsening situation in the eurozone. *(See Chart 2.)* In response to all this, house price inflation has also picked up.

Admittedly, if the problems in the eurozone worsen, then a combination of weakening demand growth from abroad and the krone's strength should hit exports. And were one or more economies to leave the single currency, the impact on business and consumer confidence could dent domestic spending, too.

But given that policymakers have scope to respond to this by loosening monetary and fiscal policy, we expect Norway to significantly outperform the eurozone. We have pencilled in GDP growth of about 3% this year, 0.5% in 2013 and 1.5% in 2014. *(See Chart 3).*

Commercial property in Oslo should perform comparatively well over the next two years. The slowdown in economic growth will act as a drag on rental value growth and could hinder property yields from compressing further in the near term. But any falls in capital values are viewed to be unlikely and with stable income return, total returns are expected to remain consistently in positive territory. Retail returns are likely to fare best.

Chart 1: GDP (% y/y)

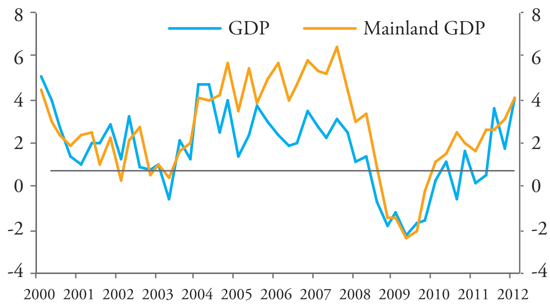



Chart 2: Household Spending & Consumer Confidence

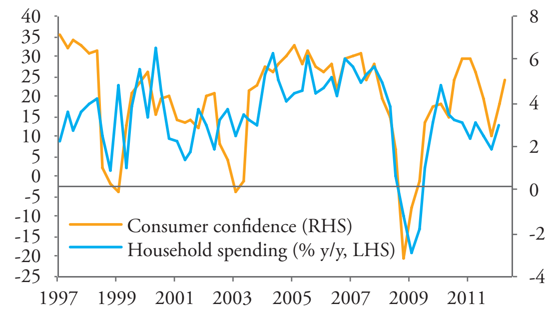
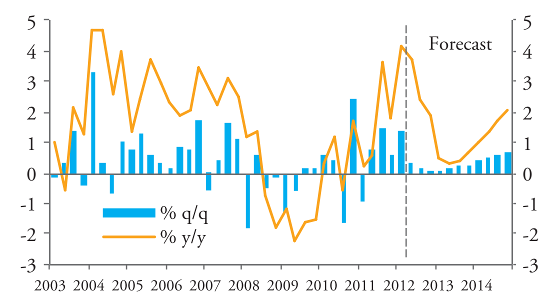



Chart 3: GDP




Sources: Property Agents, Statistics Norway, Bloomberg

# DENMARK

## UNDERPERFORMING SWEDEN AND NORWAY

**The markets may be treating Denmark as a safe haven, but recent indicators show that the wider economy is not immune to the effects of the eurozone debt crisis.**

Admittedly, Danish business and consumer sentiment has recently picked up, in contrast to the eurozone, where confidence has continued to wane. What's more, the positive effects of the recent reductions in official interest rates are unlikely to have fully filtered through to the economy just yet. *(See Chart 1.)*

But by historical standards confidence is weak. Indeed, on past form, the EC Economic Sentiment Indicator points to annual falls in GDP of 2% or so. *(See Chart 2.)* What's more, further falls in bank lending to households and house prices *(see Chart 3)* suggest that the pick-up in household spending around the turn of the year may not last. We expect a sustained period of stagnant or falling household spending.

Needless to say, the bleak outlook for the eurozone does not bode well for exporters. And with growth in Denmark's other major export destinations likely to ease, albeit less sharply, exports are likely to continue to contract. In all, then, we expect a fall in GDP this year of about 0.5%, with no improvement to come in 2013.

We can see no reason why, as the economic backdrop deteriorates, property yields in Denmark will not also drift slightly higher over the next 6-9 months. And with the weakest occupier fundamentals of any of the Scandinavian economies, we think that rental values in Denmark will see some declines. Indeed, there seems to be little prospect of the recent underperformance of Danish property markets coming to an end over the short term.

Chart 1: Official Danish Interest Rates (%)

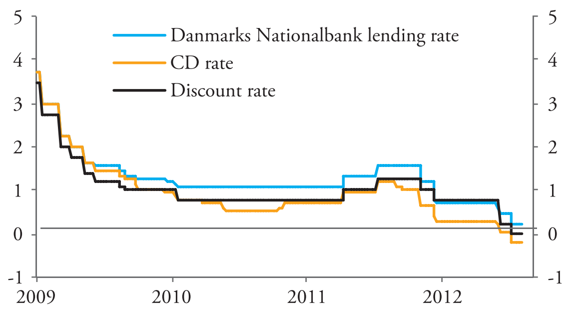



Chart 2: Danish GDP & EC Economic Sentiment Indicator

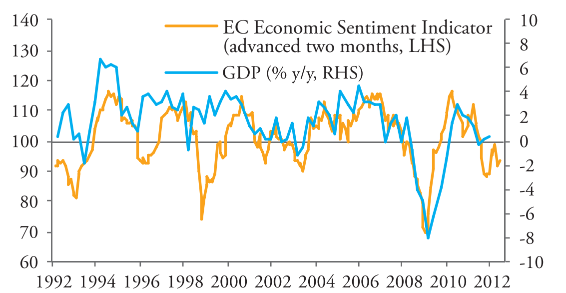
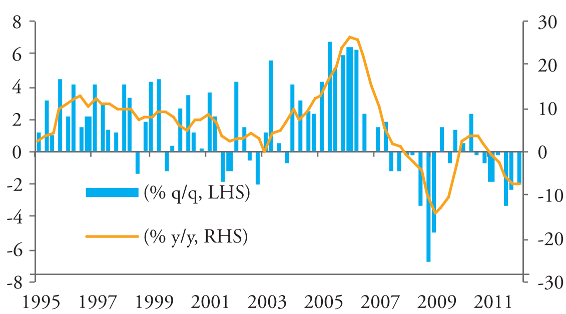



Chart 3: House Prices



# DETAILED FORECASTS

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

| % change year-on-year | Average 1998–2008 | 2009 | 2010 | 2011 | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sweden | 2.9 | -5.0 | 5.9 | 4.0 | 2.0 | 0.5 | 2.0 |
| Finland | 3.2 | -8.5 | 3.3 | 2.7 | 0.0 | -2.0 | 0.0 |
| Norway(1) | 2.1 | -1.6 | 0.6 | 1.5 | 3.0 | 0.5 | 1.5 |
| Denmark | 1.7 | -5.8 | 1.3 | 0.8 | -0.5 | -1.8 | 0.2 |
| Eurozone | 2.0 | -4.3 | 1.9 | 1.5 | -1.0 | -2.5 | -1.0 |

(1) Total GDP (not mainland)

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

| % change year-on-year | Average 1998–2008 | 2009 | 2010 | 2011 | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sweden | 1.7 | 1.9 | 1.9 | 1.4 | 0.8 | 0.3 | 0.8 |
| Finland | 1.8 | 1.6 | 1.7 | 3.3 | 2.8 | 1.0 | 0.7 |
| Norway | 1.9 | 2.3 | 2.3 | 1.2 | 0.3 | 0.3 | 0.4 |
| Denmark | 2.1 | 1.1 | 2.2 | 2.7 | 2.3 | 1.0 | 1.5 |
| Eurozone | 2.2 | 0.3 | 1.6 | 2.7 | 2.0 | 0.7 | 0.3 |

## TABLE 3. UNEMPLOYMENT RATE (%)

| % workforce | Average 1998–2008 | 2009 | 2010 | 2011 | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sweden | 6.5 | 8.3 | 8.4 | 7.5 | 7.7 | 8.3 | 7.8 |
| Finland | 9.0 | 8.2 | 8.4 | 7.8 | 7.7 | 9.5 | 9.0 |
| Norway | 3.5 | 3.1 | 3.6 | 3.3 | 3.1 | 4.0 | 3.6 |
| Denmark | 4.7 | 6.0 | 7.4 | 7.6 | 7.4 | 8.5 | 8.5 |
| Eurozone | 8.9 | 9.6 | 10.1 | 10.2 | 11.2 | 12.5 | 13.0 |

# DETAILED FORECASTS

## TABLE 4. GOVERNMENT BUDGET BALANCE (% OF GDP)

| % of GDP | Average 1998–2008 | 2009 | 2010 | 2011 | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sweden | 1.5 | -0.7 | 0.3 | 0.3 | -0.5 | -1.0 | -0.5 |
| Finland | 3.8 | -2.5 | -2.5 | -0.5 | -2.0 | -2.5 | -2.5 |
| Norway | 13.2 | 10.6 | 11.2 | 12.5 | 10.0 | 10.0 | 10.0 |
| Denmark | 2.6 | -2.7 | -2.5 | -1.8 | -6.0 | -4.5 | -4.5 |
| Eurozone | -1.9 | -6.4 | -6.2 | -4.1 | -3.7 | -3.8 | -3.7 |

## TABLE 5. OFFICIAL INTEREST RATES (%)

| % year-end | Average 1998–2008 | 2009 | 2010 | 2011 | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sweden | 3.00 | 0.25 | 1.25 | 1.75 | 1.0 | 0.5 | 1.0 |
| Finland | 3.00 | 1.00 | 1.00 | 1.00 | 0.8 | 0.8 | 0.8 |
| Norway | 4.35 | 1.75 | 2.00 | 1.75 | 1.0 | 1.0 | 1.5 |
| Denmark | 3.20 | 1.20 | 1.05 | 0.70 | 0.2 | 0.2 | 0.2 |
| Eurozone | 3.00 | 1.00 | 1.00 | 1.00 | 0.8 | 0.8 | 0.8 |

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

| % change year-on-year | Average 1998–2008 | 2009 | 2010 | 2011 | 2012f | 2013f | 2014f |
|---|---|---|---|---|---|---|---|
| Sweden | 8.7 | 5.3 | 6.3 | 1.5 | 1.5 | -0.5 | 1.5 |
| Finland | 5.8 | 4.0 | 8.7 | 2.7 | 0.8 | -1.5 | -0.2 |
| Norway | 7.3 | 3.2 | 1.6 | 5.7 | 5.0 | 3.5 | 3.5 |
| Denmark | 12.6 | 22.5 | 3.0 | -4.0 | -7.0 | -2.5 | -0.5 |

# SWEDEN

Sweden has a population of some 9.5 million, which has increased by an average of 0.7% per year over the last five years. 22% of the Swedish population lives in the Greater Stockholm area, and this population has grown by an average of 1.8% per year in the last five years. In 2011, Sweden had a GDP of USD 538 billion, about USD 57,000 *per capita.* In June 2012, the unemployment rate stood at 7.5%, the same figure as in December 2011.

## The Investment Market

Transaction volume on the Swedish property market during Q2 2012 was roughly equal to that during Q2 2011, SEK 23.7 billion compared to SEK 23.5 billion. International investors accounted for close to 30% of the transaction volume in the second quarter. Interest from international investors during Q2 2012 dropped significantly, resulting in a share of just over 10%. Investments in the three major Swedish cities increased during Q2 2012 and this proportion rose to 80% of overall transaction volume. Office investments accounted for 50% of total transaction volume in the quarter.

During the second quarter of 2012, the difference between high-quality office properties and office properties in secondary locations with higher risk remained, in the form of vacancies and short remaining lease commitments.

At the end of April 2012, it was announced that Folksam had acquired Kungsbrohuset from Jernhusen for about SEK 2.1 billion. The property is located in the western part of Stockholm CBD, also called Västra City. Kungsbrohuset was completed in 2010 with a strong environmental profile, and at the time of acquisition was fully let. The property, which attracted several bidders, both domestic and foreign, was sold at an initial direct yield of just under 4.5%. This shows that there is a strong interest in modern office properties in the CBD in general and in Västra City in particular. Immediately after the deal was made public, it was also announced that Klarabergshuset, owned by Fortin, was up for sale. Klarabergshuset was sold to AFA Fastigheter in early July 2012. The adjacent Waterfront Building office property, owned by the German company Meag, is on the market as well.

## The Office Market

It is estimated that the total office stock in Greater Stockholm amounts to approximately 12.0 million m2. Stockholm CBD is considered to be the most attractive office area and its stock totals about 1.9 million m2. Stockholm Central has an office stock of about 4.3 million m2. The main office areas in Greater Stockholm are found in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby.

## New Supply

During 2011, projects totaling just over 40,000 m2 were completed; the low amount of new construction was a result of the financial turmoil experienced during 2008–2009. Construction levels for 2012 are back to a high level of close to 130,000 m2, of which close to 95% is pre-let. Only a few new-construction projects that were initiated speculatively are currently in progress in Stockholm. These projects are Skanska's Lustgården, NCC's Torsplan and Fabege's Uarda 1.

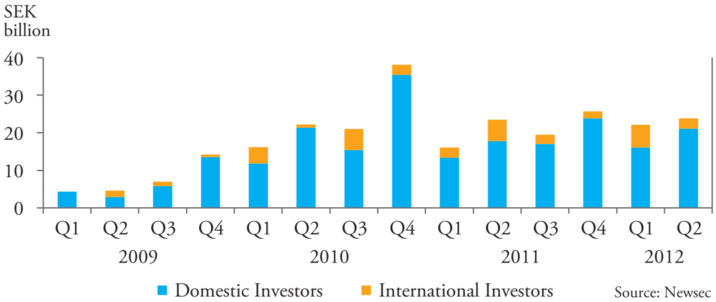
The known possible new-production projects in Greater Stockholm add up to nearly 2.5 million m2 of offices. For a large proportion of these plans, start-up lies several years into the future and the proportion of speculative project starts in the next few years is expected to be limited.

The top four office projects in Sweden are being built in Greater Stockholm. Skanska initiated its Lustgården office project during 2011 and announced that the company intends to locate its

## List of Transactions - Top 8 - Greater Stockholm Area - Q2 2012

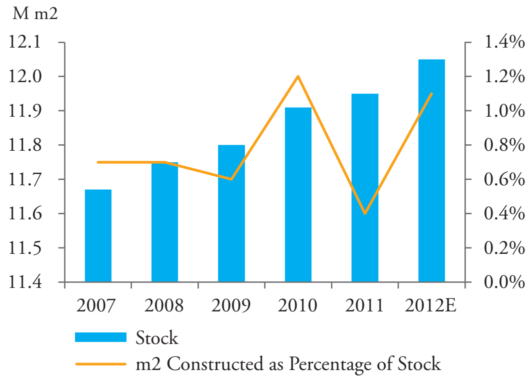
| No. | Object | Location | Buyer | Seller | Property type | Value (SEK m) | Size (m2) | Yield |
|---|---|---|---|---|---|---|---|---|
| 1. | Office Portfolio | Solna and Sundbyberg | Humlegården Fastigheter | Länsförsäkringar | Liv Office | ~ 4,000 | 202,000 | N/A |
| 2. | Kungsbrohuset | Stockholm (CBD) | Folksam | Jernhusen | Office | ~ 2,100 | 26,400 | 4.50% |
| 3. | 6 Airport Buildings | ARN, GOT and MMX | Swedavia | SAS | Logistic and other | 1,775 | 152,000 | N/A |
| 4. | Barkarby Retail Park | Järfälla (Barkarby) | Invesco Real Estate | Commerz Real | Retail | ~ 560 | 22,800 | N/A |
| 5. | Hilton 3 | Solna (Frösunda) | Klövern | DEGI International | Office | 510 | 18,500 | N/A |
| 6. | Murmästaren 13 | Stockholm (Kungsholmen) | Lundbergs | Niam | Office | 478 | 11,000 | N/A |
| 7. | Residential Portfolio | Järfälla (Norra Kallhäll) | Willhem | Wåhlin Fastigheter | Residential | 435 | 26,700 | N/A |
| 8. | Residential Project | Stockholm (Fruängen) | Familjebostäder | Skanska | Residential | 393 | 12,200 | ~ 4.15% |

Transaction Volume Quarterly | Sweden



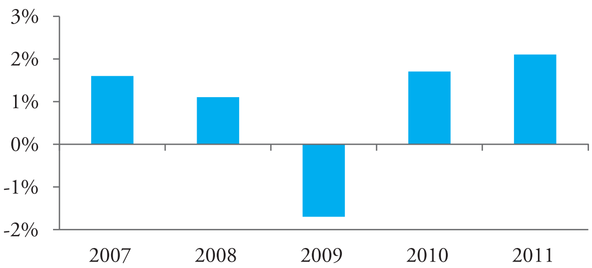

Source: Newsec

Greater Stockholm - Office




Source: Newsec

Net Take -up as Percentage of Stock




Source: Newsec

## List of Office Projects - Top 5 - Sweden - Q2 2012

| No. | Project | Location | Owner/Developer | Size (m2) | Project start | Expected date of completion |
|---|---|---|---|---|---|---|
| 1. | Lustgården Office Building | Stockholm (Kungsholmen) | Skanska | 55,000 | 2011 | 2014 |
| 2. | New Headquarters for Swedbank | Stockholm (Sundbyberg) | Humlegården | 44,000 | 2011 | 2013 |
| 3. | New Headquarters for Vattenfall | Stockholm (Arenastaden) | Fabege | 43,000 | 2009 | 2012 |
| 4. | New Headquarters for the Swedish Security Service | Stockholm (Huvudsta) | Specialfastigheter | 35,000 | 2010 | 2013 |
| 5. | Rättscentrum i Malmö | Malmö | Vasakronan | 34,000 | 2010 | 2013 |

## List of Retail Projects - Top 5 - Sweden - Q2 2012

| No. | Project | Location | Owner/Developer | Size (m2) | Project start | Expected date of completion |
|---|---|---|---|---|---|---|
| 1. | Mall of Scandinavia | Stockholm | Unibail-Rodamco | 95,000 | 2012 | 2015 |
| 2. | Emporia | Malmö | Steen & Strøm | 65,000 | 2006 | 2012 |
| 3. | Torp Retail Area | Uddevalla | Ikano/IKEA/Steen & Strøm | 40,000 | 2010 | 2013 |
| 4. | IKEA/Ikano Shopping Center | Umeå | Ikano/IKEA | 35,000 | 2012 | 2014 |
| 5. | Norra Backa | Borlänge | Ikano/IKEA | 35,000 | 2011 | 2013 |

head office at Lustgården in fall 2013, and will then occupy about half of the area in the 55,000 m2 office building. During the first quarter of 2012, Nordea announced that it intends to reduce its accommodation needs in Stockholm from approximately 90,000 m2 today to approximately 65,000 m2 by 2015. As part of this strategy, Nordea signed a lease agreement with Skanska for approximately 24,000 m2 in Lustgården. This brings total letting in the project to over 90%, with close to 18 months still to run before completion.

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

### The Occupier Market

Rental levels in Stockholm CBD remained stable in Q2 2012, and are now estimated at SEK 4,450 per m2, an increase of 6% since Q2 2011. We estimate that rents by the end of 2012 will be SEK 4,550 per m2 and SEK 4,650 per m2 by the end of 2013. The vacancy rate in the CBD is expected to remain stable at around 4% up to the end of 2013, in part because Swedbank will be leaving Gallerian, Försäkringskassan will be leaving Uggleborg 12 and Diligentia will have completed the renovation of Träsket 17. The Inner City has become an interesting alternative to the CBD, where rents have climbed significantly. The Inner City vacancy rate fell by 0.5% to 7% during Q2 2012 and rents increased by SEK 50 per m2, now estimated at SEK 2,700 per m2.

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

Between fall 2013 and spring 2016, Swedbank, Nordea, SEB and Försäkringskassan will all either greatly reduce the amount of space they lease in Stockholm CBD or will leave the district entirely and set up operations in the inner suburbs instead. This means that a total of about 160,000 m2 of office space will become empty, representing nearly 10% of the office stock in the CBD. The properties will be vacated at different times and will be rebuilt and upgraded before they are returned to the market. There may also be some conversion to retail and housing. With continued growth in the region, we believe that the market will absorb the new capacity in a few years. However, the addition of office space may put pressure on office rents in the CBD.

### The Retail Market

Consumer confidence fell during the summer and fall of 2011 along with the world economy's move from weak positive growth to a far more crisis-ridden situation. Household caution was clearly reflected in retail trade, with resultant low growth. However, retailing made a strong start to 2012, showing the strongest performance since the spring of 2011. In 2012, retail sales are expected to increase by 2.5%, according to the latest forecast for retail growth by HUI (the Swedish Retail and Wholesale Trade Research Institute) even though Q2 2012 turned out weak.

Domestic consumption is the most important engine in the Swedish economy. According to preliminary figures, household real disposable income increased by just over 3% in 2011, compared with a little over 1% in 2010, and is expected to continue to rise in 2012–2013 due to a combination of wage rises and low inflation. The household savings ratio in 2011 was just under 10%. The expected future reductions in interest rates and a continuing stable labor market are expected to have a positive effect on households during 2012 and 2013. With household mood improving, the savings ratio may well fall a little in coming years.

## New Supply

About 500,000 m2 of new retail space is planned in Stockholm up until 2015. The largest project is Mall of Scandinavia next to the new National Arena for football in Solna, which will have about 100,000 m2 divided among 250 stores. During the fourth quarter of 2011, Unibail-Rodamco acquired building rights for the intended project area. Täby Centrum, also owned by Unibail-Rodamco, is to add about 25,000 m2 of retail space, which is expected to be completed in 2015. The new shopping center Emporia, being developed by Steen & Strøm, will have about 65,000 m2 and will open in October 2012.

## Occupier Market

High Street retail rents were fairly stable throughout the second half of the 2000s, due to the inherent stability of Swedish private consumption. High Street rents were stable at SEK 14,500 per m2 during Q2 2012 but are projected to rise to SEK 15,000 per m2 during the second half of 2012.

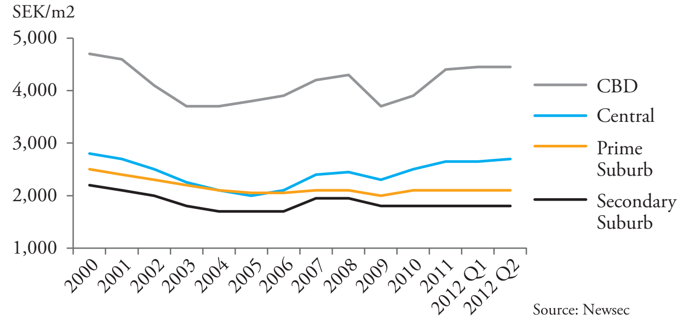
## The Logistics Market

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

## The Occupier Market

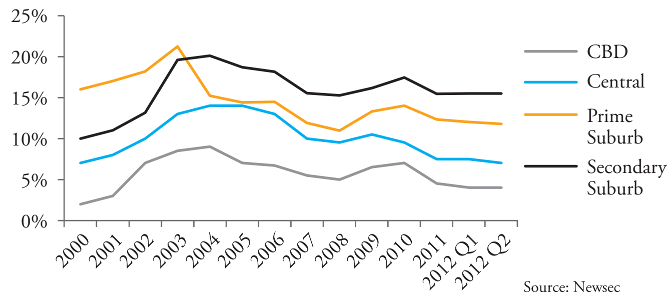
Rent levels for prime logistics properties are currently slightly above SEK 800 per m2 in Stockholm. Tenant demand for good logistics premises with locations connected to logistics clusters and transportation hubs will remain stable due to expectations of resilient domestic growth during 2012–2013. Few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

Stockholm Office Rent



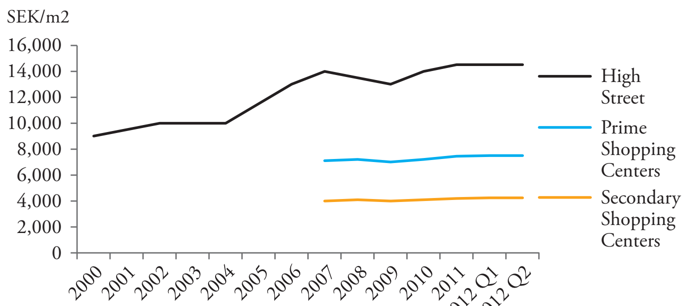

Source: Newsec

Stockholm Office Vacancy



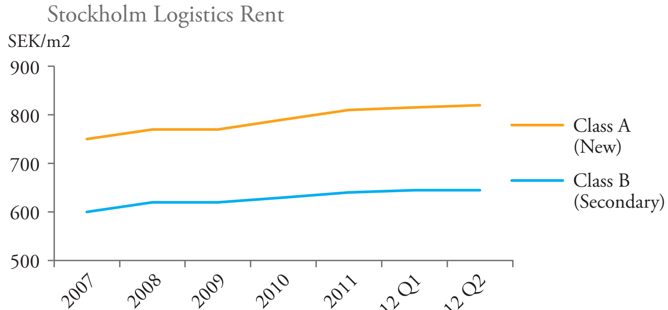

Source: Newsec

Stockholm Retail Rent



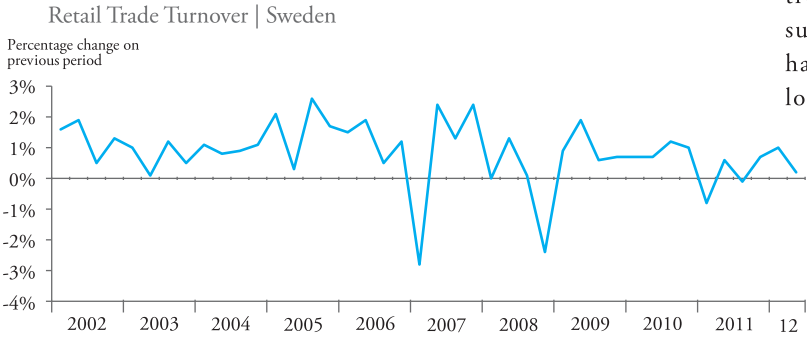

Source: Newsec

Stockholm Logistics Rent




Source: Newsec

Retail Trade Turnover | Sweden




Source: Eurostat

# FINLAND

Finland has a population of some 5.4 million, which has increased by an average of 0.5% per year in the last five years. In 2011, the population grew by 26,000, the largest annual increase since 1991. The Greater Helsinki area accounts for just over 25% of the Finnish population, and its population has grown by an average of 1.2% per year during the last five years. In 2011, Finland had a GDP of USD 267 billion, about USD 49,000 *per capita.* The labor market has shown positive signs during 2011 and 2012. The unemployment rate in June 2012 was 7.9%, a fall of 0.5% since June 2011.

## The Investment Market

During the first half of 2011, transaction volume increased by one-third compared to the same period of 2010. The opposite situation occurred during the second half of 2011, when the eurozone debt crisis affected the property market and liquidity was cut in half compared to the same period of 2010. Comparing the first half of 2012 with the same period of 2011, transaction volume has remained stable - EUR 910 million compared to EUR 980 million. The transaction market is still sluggish compared to the years before the crisis and there is no significant activity from international investors on the Finnish property market.

The insurance company Ilmarinen sold an old office building to The Church's Central Fund, which will move into the building as a user. The property is located in the center of Helsinki. The yield is estimated at about 6%. Also, Helsinki University sold a property to the developer Westpro. The University´s lease will expire in 2013 and Westpro will develop residential accommodation. Fennia Life acquired Uudenmaankatu 24, an office building in the center of Helsinki that is fully let to the City of Helsinki. The property is well suited for the buyer's long-term strategy. The latest office transactions in Helsinki CBD indicate that the prime office yield at the moment is just over 5.5%.

## The Office Market

The size of the total office stock in the Finnish university cities is about 11 million m2, with the largest volumes in Helsinki, Espoo, Tampere, Vantaa and Turku. About 8.6 million m2, or 75% of the total stock, is located in the Helsinki Metropolitan Area (HMA), which is the commercial center of Finland. Of the HMA office stock, 70% is located in Helsinki itself and the remainder is located in Espoo and Vantaa. Helsinki CBD is the most attractive office submarket in the HMA, offering the best accessibility and making up the favored location for many head offices. The prime submarkets are important sections of the HMA office market and consist of Ruoholahti, Center Pasila and Kalasatama in Helsinki, Keilaniemi and Leppävaara in Espoo, and Aviapolis in the Vantaa region.

## New Supply

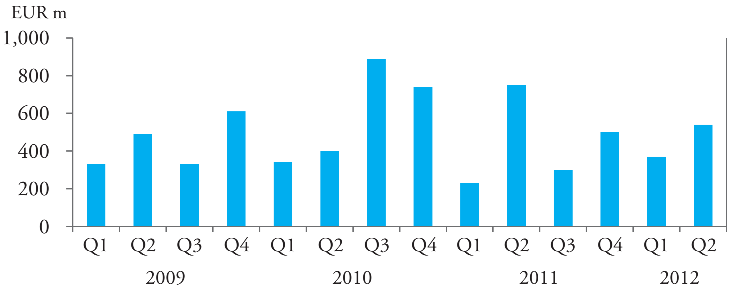
There are many projects that can be started in the near future. However, most developers are awaiting signs of a better economic climate or a certain occupancy rate before they are willing to initiate a project. Still there are several ongoing projects.

The new-construction projects that were completed during 2010 and 2011

## List of Transactions - Top 8 - Greater Helsinki Area - Q2 2012

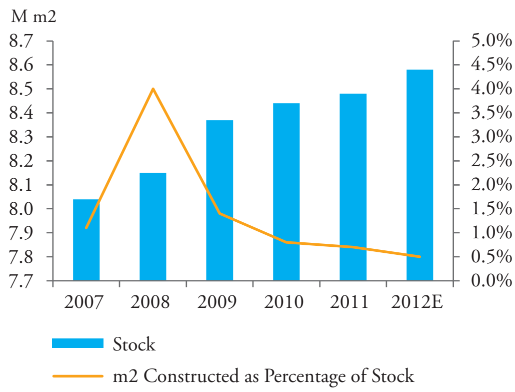
| No. | Object | Location | Buyer | Seller | Property type | Value (EUR m) | Size (m2) | Yield |
|---|---|---|---|---|---|---|---|---|
| 1. | Eteläranta 8 | Helsinki (Central) | The Church's Central Fund | Ilmarinen | Office | 37.7 | 8,700 | 6.00% |
| 2. | Lauttasaari | Helsinki (Central) | Local Developers | KeVa | Office | 9 | N/A | 6.40% |
| 3. | MREC S. R. 25 | Helsinki (Central) | Veritas | IVG Polar | Office | N/A | 7,100 | N/A |
| 4. | Vironkatu 1 | Helsinki (Central) | Westpro CC Oy | University Of Helsinki | Office and other | N/A | 3,400 | N/A |
| 5. | Uudenmaankatu 24 | Helsinki (Central) | Fennia Life | Foyer Oy | Office and other | N/A | 4,000 | N/A |
| 6. | Stella Nova | Espoo (Leppävaara) | Tapiola | Etera Mutual Pension | Office | N/A | 4,000 | N/A |
| 7. | Stella Solaris | Espoo (Leppävaara) | Tapiola | Paper Worker Union | Office | N/A | 4,100 | N/A |
| 8. | 7 retail properties | All over Finland | Sveafastigheter and Capitol Asset Management | Aberdeen | Retail | N/A | 6,000 | N/A |

Transaction Volume Quarterly | Finland



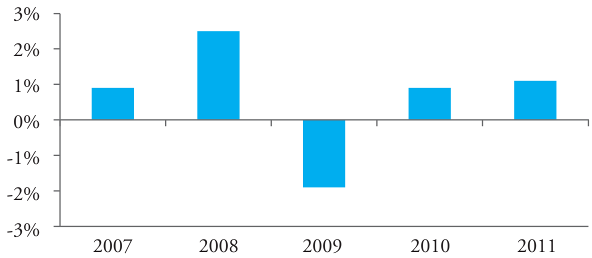

Source: Newsec

Greater Helsinki - Office




Source: Newsec

Net Take-up as Percentage of Stock




Source: Newsec

## List of Office Projects - Top 5 - Finland - Q2 2012

| No. | Project | Location | Owner/Developer | Size (m2) | Project start | Expected date of completion |
|---|---|---|---|---|---|---|
| 1. | Turku Port Center | Turku | Stiftelsen för Åbo Akademi | 23,000 | 2011 | 2012 |
| 2. | New Headquarters for Alma Media | Helsinki Center | Etera | 12,000 | 2011 | 2012 |
| 3. | Ratinankaari | Tampere | YIT | 11,000 | 2011 | 2012 |
| 4. | Innova 4 | Jyväskylä | Technopolis | 10,000 | 2012 | 2013 |
| 5. | New Headquarters for Stora Enso | Helsinki | Stora Enso | 6,500 | 2012 | 2013 |

## List of Retail Projects - Top 5 - Finland - Q2 2012

| No. | Project | Location | Owner/Developer | Size (m2) | Project start | Expected date of completion |
|---|---|---|---|---|---|---|
| 1. | City Center Expansion | Helsinki | Sponda Oyj | 30,000 | 2011 | 2012 |
| 2. | Hämeenlinna Shopping Center | Hämeenlinna | NCC/City of Hämeenlinna | 30,000 | 2012 | 2014 |
| 3. | Sokos Tapiola | Espoo | Real Estate Tapiola | 19,000 | 2012 | 2013 |
| 4. | Shopping Center Willa (phase 2) | Hyvinkää | Varma | 12,000 | 2012 | 2012 |
| 5. | Myllypuro Retail Center | Helsinki | Citycon | 7,000 | 2011 | 2012 |

added little volume, a result of the financial turmoil of 2008–2009. New construction during 2012 is at about the same level as during the two previous years, approximately 40,000 m2.

Technopolis Oy is a listed company specializing in real estate, leasing of business premises and services. During the second quarter of 2012, it completed Innova 2, a new office building in Jyväskylä near the city center. The construction of Innova 4, comprising 10,000 m2, has just started and is due for completion in Q3 2013.

### The Occupier Market

The decrease in office rents during 2009 was temporary and in 2010–2011 rents increased. During 2012, Newsec estimates that rents will show a minor increase but overall will remain fairly stable and thus in line with 2011 levels. In Helsinki CBD, prime rents in the second quarter were about EUR 336 per m2. Rents in the most popular business parks are relatively stable, whereas in weaker areas new contracts are occasionally signed at lower levels than those observed in 2011.

During 2011, the vacancy rate in the Helsinki Metropolitan Area either decreased or was fairly stable. In Helsinki CBD, the vacancy rate in the second quarter of 2012 was about 5.0%, indicating that the central area has kept its attractiveness. During 2012, vacancies in Helsinki CBD are expected to show a minor decrease, whereas 2013 is expected to see some increase due to tenant efforts to enhance the usage efficiency of office space and to the construction of new office buildings.

### The Retail Market

About 50% of the retail stock in the HMA is located in Helsinki and about 25% each in Espoo and Vantaa. Large stores have for a long time played a substantial role in the Finnish everyday commodity trade. The market share of stores larger than 1,000 m2 is approximately 65%, where 10% of all the stores are representing half of the total value of grocery trade.

Retail trade turnover in Finland has historically been quite strong. Combined with a good consumer confidence level and growth in private consumption, this has fueled further development. However, during fall 2011 the retail trade turnover growth dropped below 1% due to a psychological effect on households that is clearly and largely related to the eurozone debt crisis. The first quarter of 2012 started off well with a growth level of 3.8%, whereas the second quarter showed signs of weakening, with a retail trade turnover growth level of –1.0%.

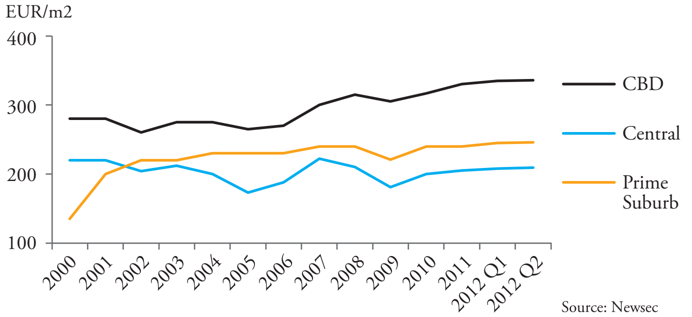
### New Supply

The City Center Expansion is a project in Helsinki CBD. An old building will be remodeled and expanded to provide approximately 30,000 m2 of retail space, which is a quite significant expansion given its location in Helsinki CBD. Another project is Phase 2 of the Willa Shopping Center, which is located between the Citymarket and Prisma supermarkets and will comprise the bulk of Willa's specialty retail offering, focusing on fashion, leisure, home furnishing, restaurants, cafés, beauty, health and services. Many leasing contracts have already been signed. Myllypuro Retail Center is located in the eastern part of Helsinki. It consists of about 7,000 m2 of retail space, with apartments above the retail space.

### The Occupier Market

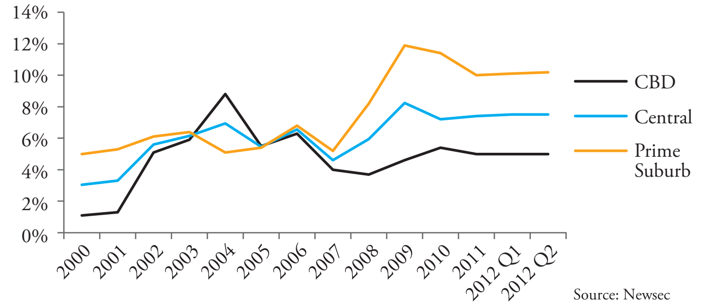
In Helsinki, High Street retail rents increased throughout the second half of the 2000s. High Street retail rents rose in 2011 to EUR 1,480 per m2. The increase has continued during the first half of 2012 and the rent is today at EUR 1,510 per m2, mainly as a result of a strong demand for prime locations.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

Helsinki Office Rent



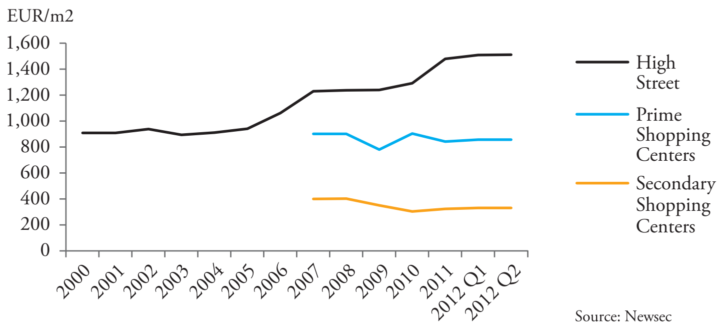

Source: Newsec

Helsinki Office Vacancy



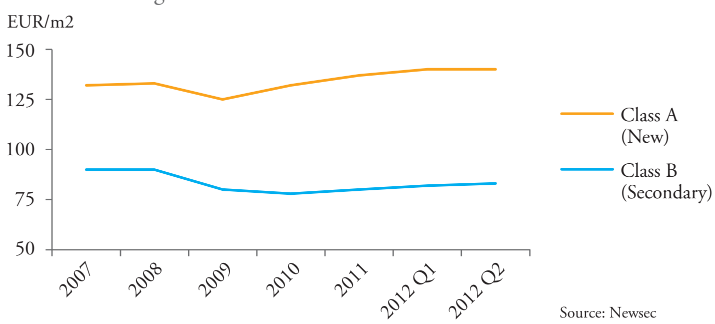

Source: Newsec

Helsinki Retail Rent



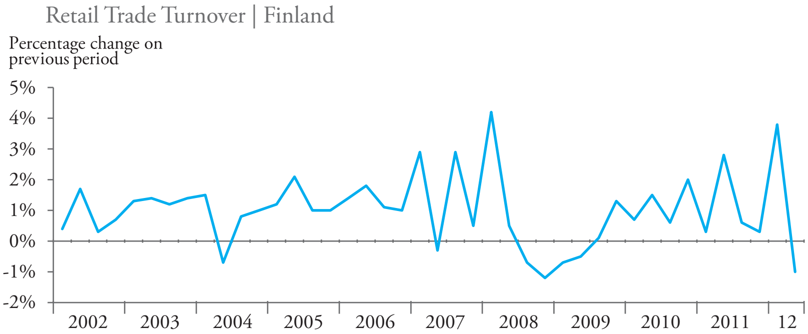

Source: Newsec

Helsinki Logistics Rent




Source: Newsec

Retail Trade Turnover | Finland




Source: Eurostat

## The Logistics Market

Owner-occupation characterizes the Finnish logistics market. So far, this sector has avoided oversupply due to the low level of speculative development. This is the case for Helsinki as well and demand during coming years is expected to exceed supply. Recently, a couple of manufacturing companies have moved from Asia back to Finland, which helps to increase the demand for these types of premises.

## The Occupier Market

Rental levels for prime logistics properties in Helsinki have experienced a slight increase during recent years. For prime logistics, the slight increase is partly the result of demand for new logistics properties in the new logistics areas of Vuosaari and Jätkäsaari. Currently, rents are about EUR 140 per m2. For the years to come, up until 2014, a stable rent development is expected for prime logistics properties. ■

# NORWAY

Norway has a population of some 5.0 million, which has increased by an average of 1.3% per year over the last five years. A percentage growth of this magnitude was last seen during the 1920s and it makes Norway a stand-out compared to other European countries. The Greater Oslo area accounts for just over 25% of the Norwegian population and has grown by an average of 2.0% per year for the last five years. In 2010, Norway had a GDP of USD 484 billion, about USD 97,300 *per capita*. The unemployment rate in Norway is exceptionally low and has been so for many years. In May 2012, it stood at 3.0%, a fall of 0.3% since December 2011.

## The Investment Market

Transaction volume on the Norwegian property market during Q1 2012 was NOK 13 billion, a steep increase compared to the same period in 2011, when it was NOK 2.5 billion. During the second quarter, the low proportion of invested foreign capital and the restrictive lending policies of the banks had a strong negative impact, resulting in a transaction volume of NOK 5.5 billion, compared to NOK 8.9 billion in Q2 2011.

Investors in the Norwegian market show greatest interest in core office properties and properties with long leases. However, “value-adding” properties, with a potential for rents to increase or development possibilities, have increased in popularity among investors. Several investors have bought commercial properties with the intention of converting them into residential properties. However, banks are reluctant to fund investments in the value-add sector, and this has resulted in easier funding for core properties with long leases.

In April 2012, MøllerGruppen reached an agreement with AL Industrier for the purchase of AL Eiendomsutvikling AS, which owns Harbitzalléen 3-7 on Skøyen. The property is described as one of the last unexploited properties in the center of Oslo, and has great development potential.

DNB Liv sold the Lørenveien 55-65 property at the end of June 2012. The buyer is a syndicate, created by DNB Markets and Stor-Oslo Eiendom, in which Stor-Oslo Eiendom is the majority owner. The property is currently developed with office and retail but these buildings were constructed decades ago and will in time gradually be demolished in favor of new residential and retail buildings. There is a shortage of properties in Oslo with development potential, especially those that are suitable for residential purposes. In addition, the property is attractive because it will provide rental income during the development phase.

## The Office Market

The total office stock in Oslo is approximately 9.4 million m2. The Oslo CBD is relatively small compared to the other Nordic countries and the most attractive and highest-priced office locations are in the Vika and Aker Brygge areas. However, Bjørvika and the area around the Central Station will soon form another part of the CBD when they are developed. The other major submarkets are Skøyen, Lysaker, Fornebu, Nydalen, Helsfyr and Bryn, all located outside the city center.

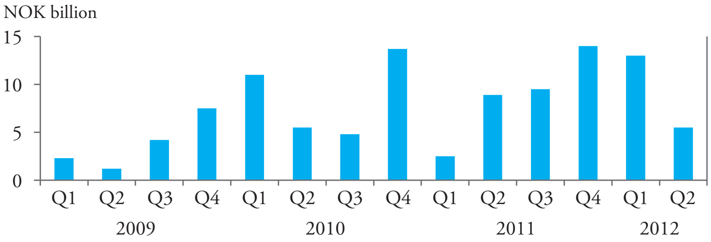
## New Supply

The relatively large amount of m2 constructed per year in Oslo is due to the fact that tenants, especially the larger occupiers, demand highly space efficient offices. The amount of new construction in Greater Oslo as a percentage of stock has been about 2.0% per year on average over the last five years. Compared to Stockholm, where the corresponding figure is

## List of Transactions - Top 5 - Greater Oslo Area - Q2 2012

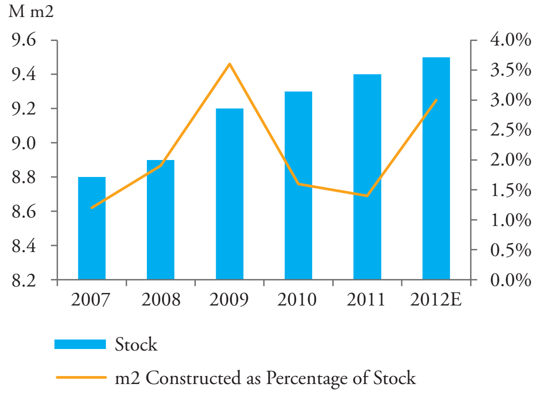
| No. | Object | Location | Buyer | Seller | Property type | Value (NOK m) | Size (m2) | Yield |
|---|---|---|---|---|---|---|---|---|
| 1. | Harbitzalléen 3-7 | Oslo (Skøyen) | MøllerGruppen | A.L. Industrier | Lot | 475 | 25,300 | N/A |
| 2. | Lørenveien 55-65 | Oslo (Løren) | Stor Oslo and Syndicate | DNB Liv | Retail and other | 350 | 27,500 | N/A |
| 3. | Sørenga | Oslo (Bjørvika) | Veidekke and REMA | HAV Eiendom | Lot | 280 | 22,500 | N/A |
| 4. | Aslakveien 20 | Oslo (Røa) | Obos | Union Eiendomskapital | Office and other | 260 | 20,000 | 7.30% |
| 5. | Tordenskiolsdgate 6 | Oslo (CBD) | Oslo Areal | Niam | Office | 240 | 5,100 | 5.10% |

Transaction Volume Quarterly | Norway



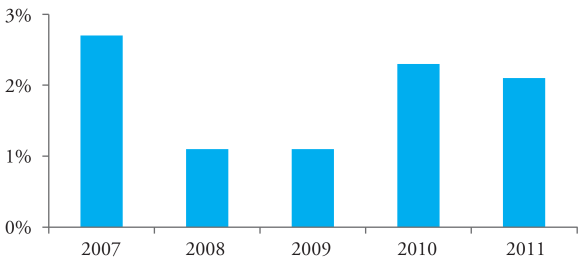

Source: Newsec

Greater Oslo - Office




Source: Newsec

Net Take-up as Percentage of Stock




Source: Newsec

## List of Office Projects - Top 5 - Norway - Q2 2012

| No. | Project | Location | Owner/Developer | Size (m2) | Project start | Expected date of completion |
|---|---|---|---|---|---|---|
| 1. | New Headquarters for DNB | Oslo (Bjørvika) | OSU | 80,000 | 2010 | 2012-2013 |
| 2. | New Office for Statoil | Oslo (Fornebu) | IT Fornebu | 65,000 | 2011 | 2012 |
| 3 | New Office for Statnett | Oslo (Nydalen) | Avantor | 22,000 | 2011 | 2013 |
| 4 | New Office for Egmont | Oslo (Nydalen) | Avantor | 18,000 | 2011 | 2013 |
| 5 | New Off. for Kongsberggruppen | Oslo (Asker) | Oxer Gruppen | 18,000 | 2012 | 2014 |

## List of Retail Projects - Top 5 - Norway - Q2 2012

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

between 0.5% and 1.0%, Oslo has seen a substantial amount of new construction completed. Throughout the period of financial turmoil, net take-up in Oslo as a percentage of stock remained positive, while in both Stockholm and Helsinki it was close to –2.0 percent in 2009 as a percentage of stock.

Oslo S Utvikling AS (OSU) is the developer behind DNB's new headquarters, which will consist of three office buildings with a lettable area of about 80,000 m2. The buildings will be completed from 2012 to 2013 and house 4,200 DNB employees. The new headquarters will be located in the middle of the new Opera district in Bjørvika, Oslo CBD.

IT Fornebu, developer of the former airport area Fornebu in the western part of Oslo, has commissioned Skanska to build the new headquarters for Statoil. The contract is for an office building with five contiguous buildings of nine floors. The project comprises a total of about 65,000 m2. Construction began in January 2011 and completion was expected in September 2012.

### The Occupier Market

A relatively low amount of office space was constructed in Oslo in 2011 and a substantial proportion of the office projects estimated to be completed in 2012 is pre-let. Combined with the fact that companies demand highly space efficient offices in central locations, vacancies declined during 2011 and contributed to an upward pressure on rents. IT and oil related companies have accounted for a large share of take-up; so did a number of governmental agencies whose offices were destroyed in the bombing attack in the summer of 2011. During the first half of 2012, the CBD vacancy continued to decline, resulting in a rent increase of NOK 300 per m2 to NOK 3,300 per m2. The vacancy rate in the CBD is expected to remain at a low level up until the end of 2013, at which point DNB will leave over 40,000 m2 when moving to its new headquarters in Bjørvika.

Some central submarkets such as Lysaker struggle with high vacancies as companies are attracted by new office projects. The rent spread between offices in older office buildings, that no longer meet the requirements of companies, has increased in recent years, and this development is expected to continue.

### The Retail Market

Throughout the first seven years of the 2000s, retail trade turnover and consumer confidence in Norway were at a high level. The financial turmoil of 2008–2009 broke this trend, with an increase in unemployment and a weaker growth prognosis. The retail trade turnover has increased since, with only minor slumps in 2010 and 2011.

### New Supply

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

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

Steen & Strøm is projecting a 60,000 m2 shopping center in Økern, Oslo. The project is one of the most ambitious urban development projects in Oslo and will in total comprise about 250,000 m2. Apart from the shopping center, it will also include a kindergarten, private residences, offices, a water park, a cultural center, restaurants, a library, a museum and health services.

### The Occupier Market

High Street rents increased by NOK 500 per m2 during Q2 2012. In Oslo, High Street rents are also found in boutiques on streets like Karl Johans Gate and Bogstadveien. High Street rents were fairly stable after the peak in 2008 but there was a tangible increase in rent during 2011. Vacancies are close to none in good locations on High Streets and in prime shopping centers. The Norwegian economy is inherently stable, due to the oil sector. This will provide opportunities for continued rent increases during the next few years.

## The Logistics Market

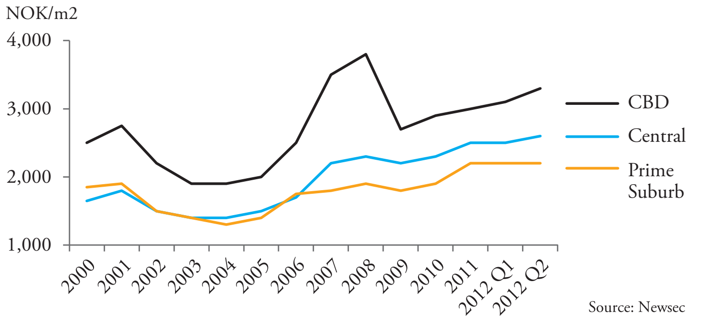
The demand for logistics facilities by operators in the Greater Oslo area has been steady for a long time. The major operators, those who require larger logistics facilities, are in most cases located along the roads south towards mainland Europe and north of Oslo, where the roads leads into the interior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

## The Occupier Market

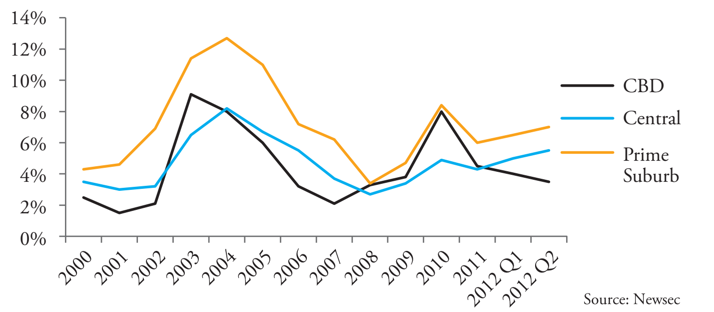
Norway in general and Oslo in particular has a population that is growing rapidly. Permission for development of new industrial and logistics areas within the Greater Oslo region is rare. Policymakers rather prefer residential or office developments. Hence, the demand for class A logistics properties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

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

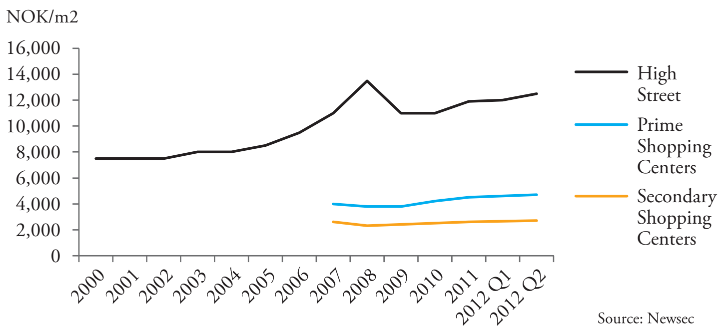
Oslo Office Rent



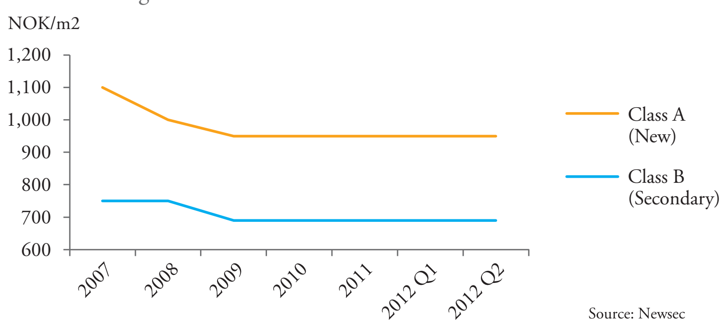

Oslo Office Vacancy



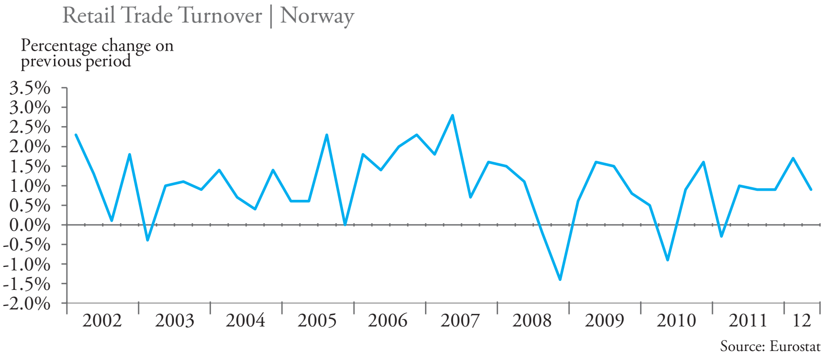

Oslo Retail Rent




Oslo Logistics Rent




Retail Trade Turnover | Norway



# DENMARK

Denmark has a population of close to 5.6 million, which has increased by an average of 0.5% per year over the last five years. The Greater Copenhagen area accounts for about 22% of the Danish population and this has grown by an average of 1.2% per year over the last five years. In 2011, Denmark had a GDP of USD 333 billion, about USD 60,000 *per capita*. The unemployment rate declined during 2011 and ended up at 6.1% in December, where it remained throughout the first half of 2012.

## The Investment Market

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

Financially strong investors, such as institutional investors and well-consolidated property companies, are still the dominant actors in the market. The debt crisis has negatively affected the banking sector, which has resulted in difficulties for investors in obtaining financing. Liquidity in the first and second quarters of 2012 continued along the moderate trend observed in the last two quarters of 2011, and ended up at DKK 2.5 billion and DKK 4.5 billion, respectively. It is expected that Copenhagen will benefit from a favorable demographic development during coming years, which is one explanation for the primary interest of foreign investors in large residential portfolios in the capital city. However, the supply of these is limited.

Weidekampsgade 8 is now the headquarters of the Danish labor union HK and the property was sold in a sale-and-leaseback transaction, with a 12-year agreement. The office property is a prime asset sold to the institutional investor PFA Ejendomme. Furthermore, a large portfolio of seven office properties located in the center of Copenhagen was bought by Jeudan from Barfoed Group. The transaction illustrates the current focus in the market for prime assets in central Copenhagen. Albertslund Centrum, an open air shopping center, was acquired by Citycon. Albertslund Centrum consist of 45 stores and currently has an occupancy rate of 97%. The acquisition is Citycon's first big investment in the Danish market. The seller was the municipality of Albertslund (Albertslund Kommune).

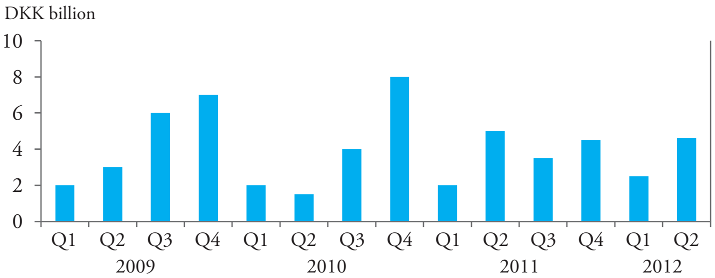
## The Office Market

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

## List of Transactions - Top 5 - Greater Copenhagen Area - Q2 2012

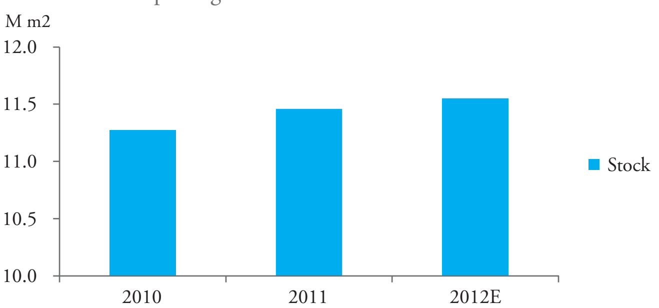
| No. | Object | Location | Buyer | Seller | Property type | Value (DKK m) | Size (m2) | Yield |
|---|---|---|---|---|---|---|---|---|
| 1. | Weidekampsgade 8 | Copenhagen (CBD) | PFA | HK | Office | 515 | 20,000 | 5.00% |
| 2. | 7 Office Properties | Copenhagen (CBD) | Jeudan | Barfoed Group | Office | 349 | 13,000 | 5.00% |
| 3. | Carl Jacobsens Vej 35 and 37 | Copenhagen (Valby) | PensionDanmark | Carl Jacobsens Vej 29-37 ApS | Office | 290 | 20,100 | 5.85% |
| 4. | 2 Hotel Properties | Copenhagen (CBD) | Ejendomsselsk. Norden | NP Hotels | Hotel | 205 | 8,300 | 7.50% |
| 5. | Albertslund Centrum | Copenhagen (Albertslund) | Citycon Oyj | Albertslund Kommune | Retail | 181 | 20,000 | 7.50% |

Transaction Volume Quarterly | Denmark




Source: Newsec

Greater Copenhagen - Office




Source: Newsec

## List of Office Projects - Top 5 - Denmark - Q2 2012

| No. | Project | Location | Owner/Developer | Size (m2) | Project start | Expected date of completion |
|---|---|---|---|---|---|---|
| 1. | UN-City, Marmormolen | Copenhagen | ATP/PensionDanmark | 45,000 | 2010 | 2013 |
| 2. | Scala | Copenhagen | EjendomsSelskabet | 23,000 | 2012 | 2015 |
| 3. | Flintholm Company House | Frederiksberg | PKA | 20,000 | 2010 | 2012 |
| 4. | Industriens Hus | Copenhagen | DI | 16,000 | 2010 | 2013 |
| 5. | Plaza | Copenhagen | Skanska | 15,000 | 2012 | 2014 |

## List of Retail Projects - Top 5 - Denmark - Q2 2012

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

in Copenhagen CBD consists of about 5 million m2 and the total office stock in the Copenhagen area amounts to about 11.6 million m2.

### New Supply

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

In Greater Copenhagen, there is only a low amount of new construction. The new-construction level for 2012 is approximately 100,000 m2. There are some big projects in the pipeline, though, and in 2013 the construction level for new offices is expected to be higher, at about 180,000 m2. This should, however, be seen in the context of the very low construction activity during 2008–2010 and may be a result of a catching-up effect.

UN City is an office project in a new part of Copenhagen that will be developed during the next 30 years. The property will be the headquarters for the United Nations' northern European division. Another office project in Copenhagen is Scala, a landmark building bought by EjendomsSelskabet Norden. The property was deserted for several years and the existing building is being removed to make room for the construction of a 23,000 m2 office building. A major part of the building is leased to Gorrissen Federspiel, a Danish corporate law firm. The Industriens Hus project is a large office building that is being developed by the Danish employers association Dansk Industri (DI). The property is located at the attractive Rådhuspladsen in Copenhagen CBD. Construction has already started, with a scheduled completion in 2013.

### The Occupier Market

Office rents in Copenhagen CBD during 2009–2010 were about DKK 1,550 per m2. During 2011, the occupier market in Copenhagen slightly improved and rents rose to DKK 1,600 per m2 - which is also the level that prevailed for the second quarter of 2012. Newsec estimates that rental levels will stay relatively flat in coming years, due to the expected slow growth in the overall economy.

The office vacancy rate in Copenhagen CBD declined in 2011, ending the year at just above 8%. During the first half of 2012, the vacancy rate increased and at the second quarter was about 9%. This was mainly caused by the eurozone debt crisis that led to a slightly higher unemployment rate. The vacancy rate still represents a surge of more than 6 percentage points from the low level of about 3% recorded in 2007, and is primarily attributable to the economic downturn.

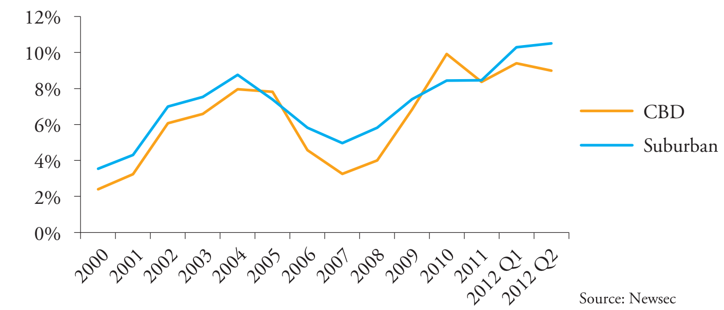
### The Retail Market

Tight legislation, regulating both the size and location of retail areas, is a characteristic of the Danish retail market. Therefore, Denmark has a large number of High Street or in-town shops and relatively few out-of-town shopping centers and retail parks. More than half of Denmark's 100 largest shopping centers are located in Greater Copenhagen.

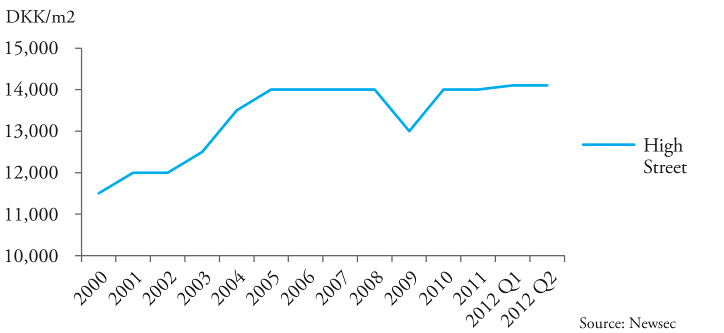
In Denmark, household finances are still impaired by the property bubble of earlier years. However, Nordic households are fundamentally strong and private consumption is expected to be one of the most important growth engines during coming years.

### New Supply

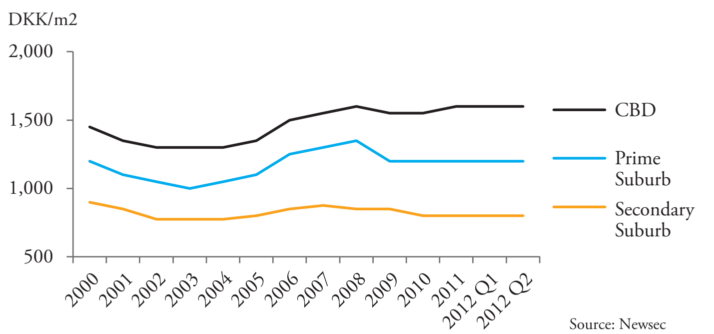
The Norwegian developer Steen & Strøm is developing a shopping center, Copenhagen Office Vacancy



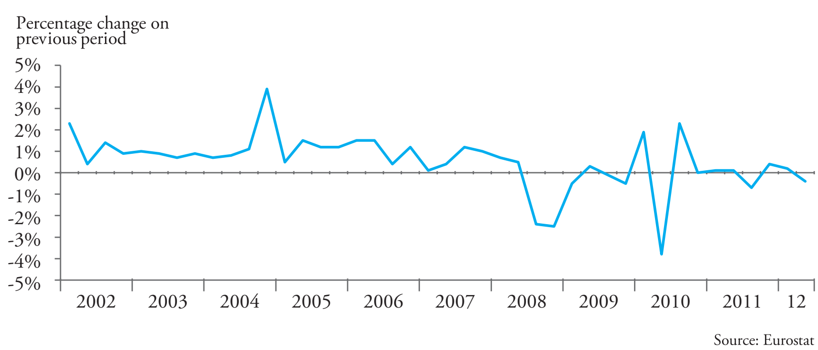

Copenhagen Retail Rent




Copenhagen Office Rent




Retail Trade Turnover | Denmark



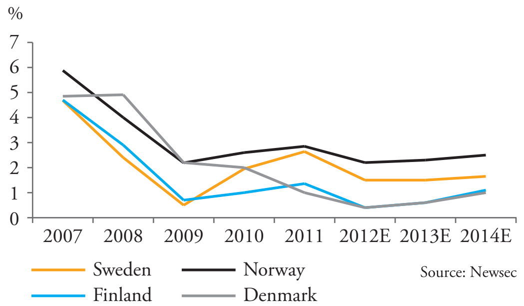

Slagterigrunden, in Odense CBD. The construction started earlier this year and the center will constitute about 45,000 m2. Another project is City 2 – Designer Outlet. In addition to the large regional shopping center City 2 in Høje-Taastrup, the owner is planning to build a new designer outlet center. The new building will comprise 20,000 m2 and there will be about 80 new shops. Frederiksberg Centret in Copenhagen will expand, with about 10,000 m2 of retail space and new parking facilities. The expansion will begin during 2012 and is expected to be completed in 2014.

## The Occupier Market

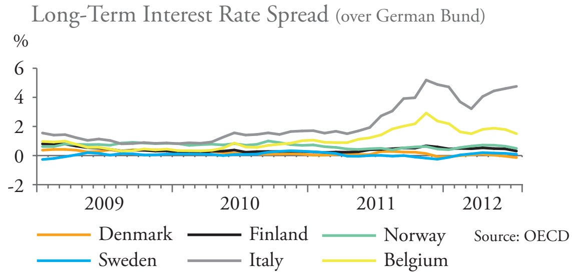
In 2009, renegotiations of lease agreements caused a minor decrease in High Street retail rents. However, the modest supply lead to an increase in High Street retail rents in 2010; in 2010 and 2011, rents stood at DKK 14,000 per m2, excluding operating costs and taxes. During the first half of 2012, there was a slight increase and rents are today at DKK 14,100 per m2. High Street rents are expected to remain relatively stable due to occupier demand for this area. A small upward pressure is expected in the coming three years, due to the lack of new development prospects and an anticipated increase in demand. ■

# THE NORDICS
## IN SUMMARY

3M Interbank Rate

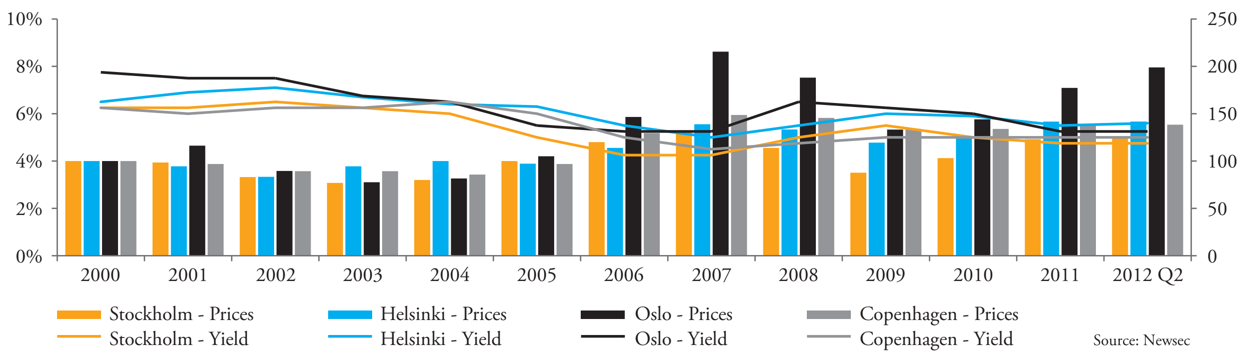



Long-Term Interest Rate Spread (over German Bund)



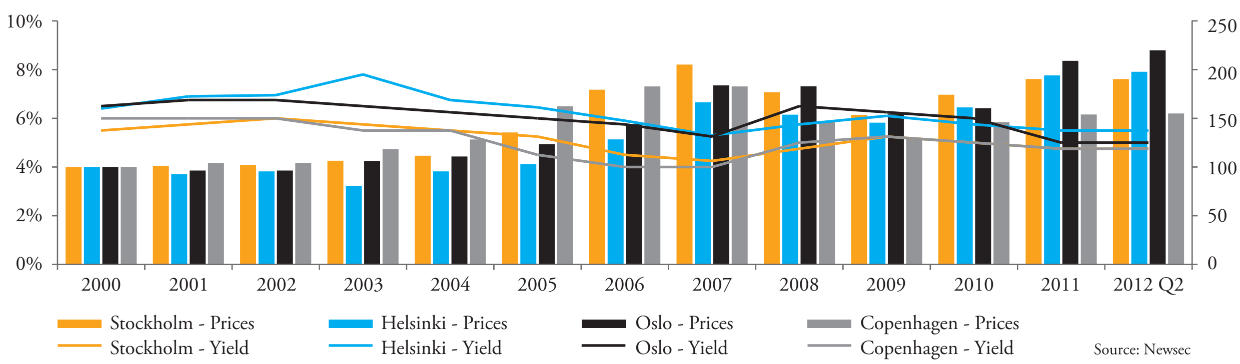

CBD Office - Prices and Yields (per m2)

Index (2000=100)



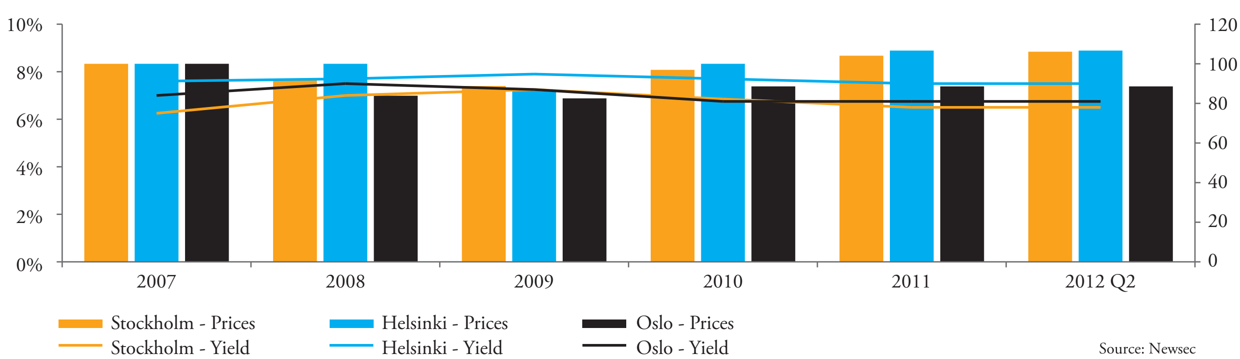

High Street Retail - Prices and Yields (per m2)

Index (2000=100)




Class A Logistics - Prices and Yield (per m2)

Index (2007=100)



# NORDIC INSIGHT

MARKET NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

## GENESTA PROPERTY NORDIC

Genesta Property Nordic is a fund and investment manager that specializes in commercial real estate in the four Nordic countries. We invest in office, retail and logistics assets and have offices in Stockholm, Helsinki, Oslo, Copenhagen and Luxembourg. Genesta's assets under management total more than EUR 800 million and 500,000 m2 of space.

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