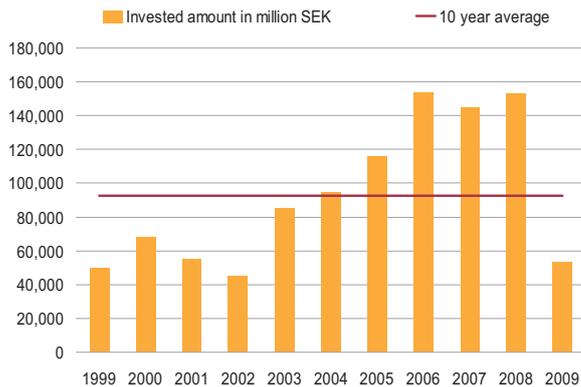


Sweden investment bulletin

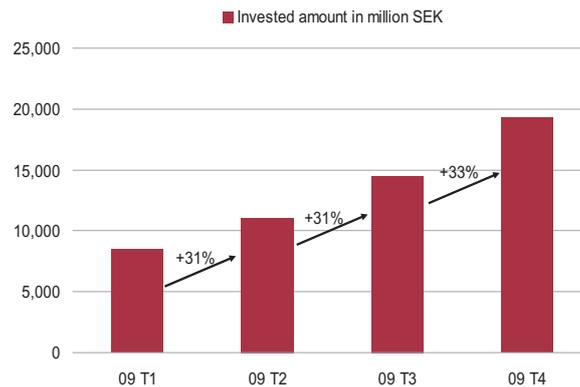
Winter 2009-10

Investment volume



Source: Savills Research

Quarterly evolution of investment volumes



Source: Savills Research

“In spite of weak annual performances, investment activity increased on average by 30% each quarter in 2009. Still, we believe the market will still have to face some difficulties in 2010.”



Peter Wiman (Head of Research)

- The transaction volume of the Swedish property market amounted to SEK 54 billion during 2009. Whilst this annual volume may appear modest, the investment activity picked up on average by 30% each quarter.
- Overall, the debt market eased over the course of 2009, however, banks remained risk-averse and very large deals were almost impossible to finance.
- The share of international investors has decreased dramatically between 2008 and 2009 and only 11% of the buyers were non-Swedish investors during 2009.
- In spite of the downswing in the investment market, interest in residential properties remained unchanged. At the opposite side of the spectrum, office and retail investments fell sharply.
- Prime yields remained relatively stable throughout 2009. However the gap between prime and secondary assets is widening significantly.
- In 2010 we believe there is a risk for the investment market to show weaker performances as Net Cash Flows will weaken due to lower rents, higher vacancies and higher interest rate.

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Economy and investment

Economic background

The recession hit the Swedish economy with full force during 2009, resulting in sharply falling exports and GDP, increasing number of lay-offs, an increased number of bankruptcies and mounting unemployment. Many factors indicate that the bottom has been reached, but 2010 will probably be a year in which unemployment continues to rise, in spite of the first glimpse of economic growth.

Overview of 2009

The transaction volume on the Swedish property market amounted to SEK 54 billion during 2009. Whilst the volume may appear modest compared to recent years it is fully equivalent to the levels seen following the IT crisis in the early 2000's. From a European perspective Sweden remains one of the larger markets in Europe after the UK, Germany, France and Italy.

Thanks to the Swedish Central Bank's various programmes access to short-term financing was made substantially easier. Overall, the debt market eased over the course of 2009, however, banks remained risk-averse and very large deals were almost impossible to finance. As a result, the average transaction size was significantly smaller compared to recent years. Only just over ten transactions exceeding SEK 500 million were closed. 2009 started out with very few transactions during January, which is usually a strong month. But going from a slow start the investment activity picked up on average by 30% each quarter. The turnover for the sole December month amounted to just under SEK 7 billion, which is approximately 13% of the annual volume.

The share of international investors has decreased dramatically during 2008 and 2009 and only 11% of the buyers were non-Swedish investors during 2009, which resulted in that the domestic buyers were net-buyers for the first time since the early 2000's. The non-Nordic investors sold properties for approx SEK 5.5 billion during 2009, whilst only buying for just under SEK 2.5 billion. The Nordic investors (mainly Danish and Norwegian) have retained their exposure and have purchased for SEK 3 billion and sold properties for the same amount. There have been very few forced sales and financial reconstructions during the year largely due to the fact that most investors have strong cash-flows combined with low interest rate cost due to the historically low interest rate.

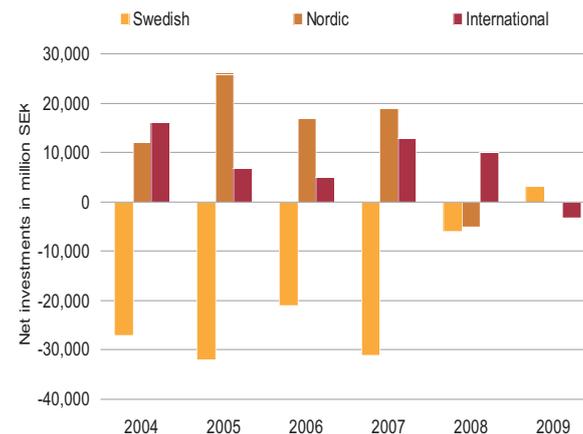
In spite of the downswing of the investment market, interest in residential properties remained unchanged. The market share of residential assets has therefore increased as the transaction volumes in the other segments have decreased. This steady appetite for residential properties is due to the low perceived risks, secure income and good possibilities of securing financing at reasonable terms. At the opposite side of

GDP growth



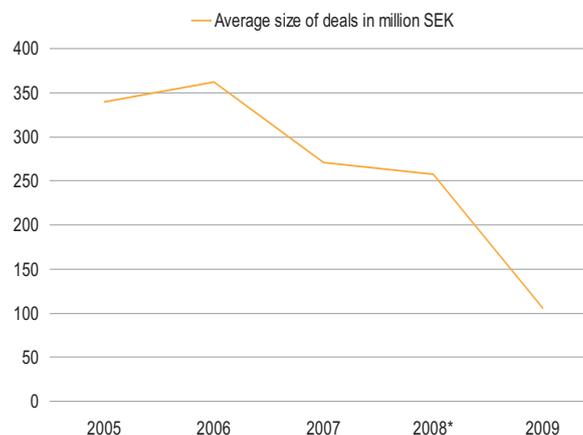
Source: Consensus Forecasts

Net investments



Source: Savills Research

Deal size



Source: Savills Research / *Excluding the Vasakronan sale

Yields and outlook

the spectrum, office investment volumes fell sharply and represented only 17% of the total turnover against nearly 52% the year before. The transaction volume for retail properties also dropped significantly compared to previous years. This can partly be explained by a change in the perceived risk of the retail segment and the uncertainty regarding how the retail trade will develop in the next few years. However, the retail trade has remained strong and so far we have seen only limited evidence of declining in rents and the increasing of vacancies. A number of listed construction companies have sold off parts of their development portfolios, both regarding commercial and residential development projects. The commercial and public properties have mainly been purchased by institutions and many of the residential development projects have been acquired by non-profit housing bodies. The majority of these deals are forward funding transactions.

Yields

After they moved out by 100 basis points on average between Q4 2007 and 2008, prime yields in Stockholm remained relatively stable throughout 2009. However the gap between prime and secondary assets is significantly widening, reflecting the risk aversion of the current market players.

Outlook for 2010

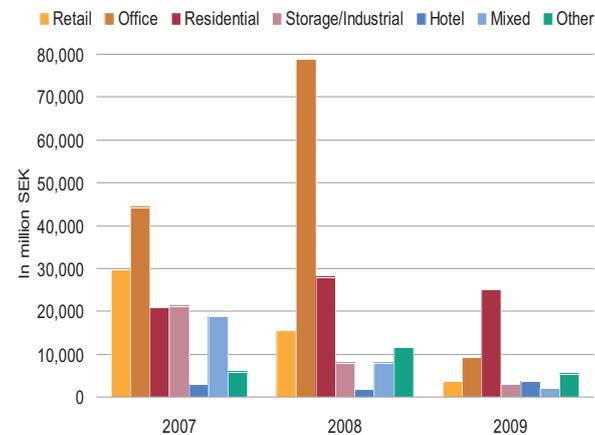
Even if the financing situation eases partly through existing banks and credit institutions and partly through a continued influx from new financiers, it will remain difficult to finance large deals and portfolios, as well as unsecured properties during 2010.

Given that many foreign banks have announced they are planning to leave the Swedish market, the credit stock is likely to become an issue. Substantial volumes of loans were financed during the boom years; the question is that whether or not market players are willing to accept losses and how and where to get new funding.

A likely scenario during 2010 is that the investment market will show weaker performance as a result of a combination of weaker NOIs, higher vacancies and higher interest rates, which will create a situation where efficient management becomes increasingly important.

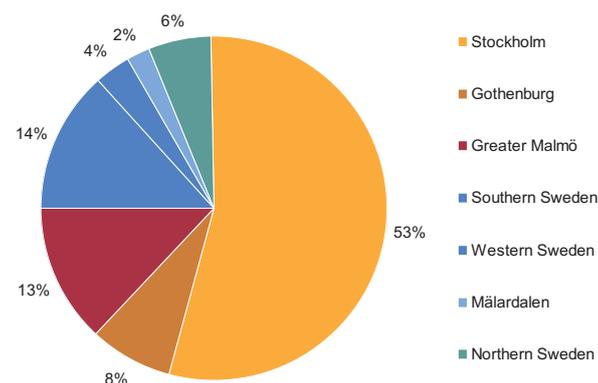
Various forms of risks will be fully mirrored in a widening spread of prices, notably between prime and secondary opportunities.

Breakdown per type of assets



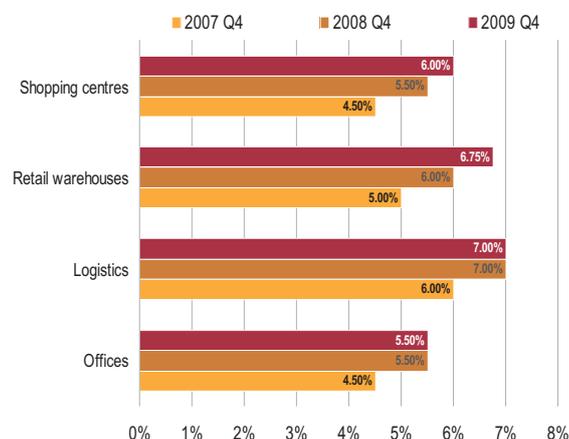
Source: Savills Research

Breakdown per location



Source: Savills Research

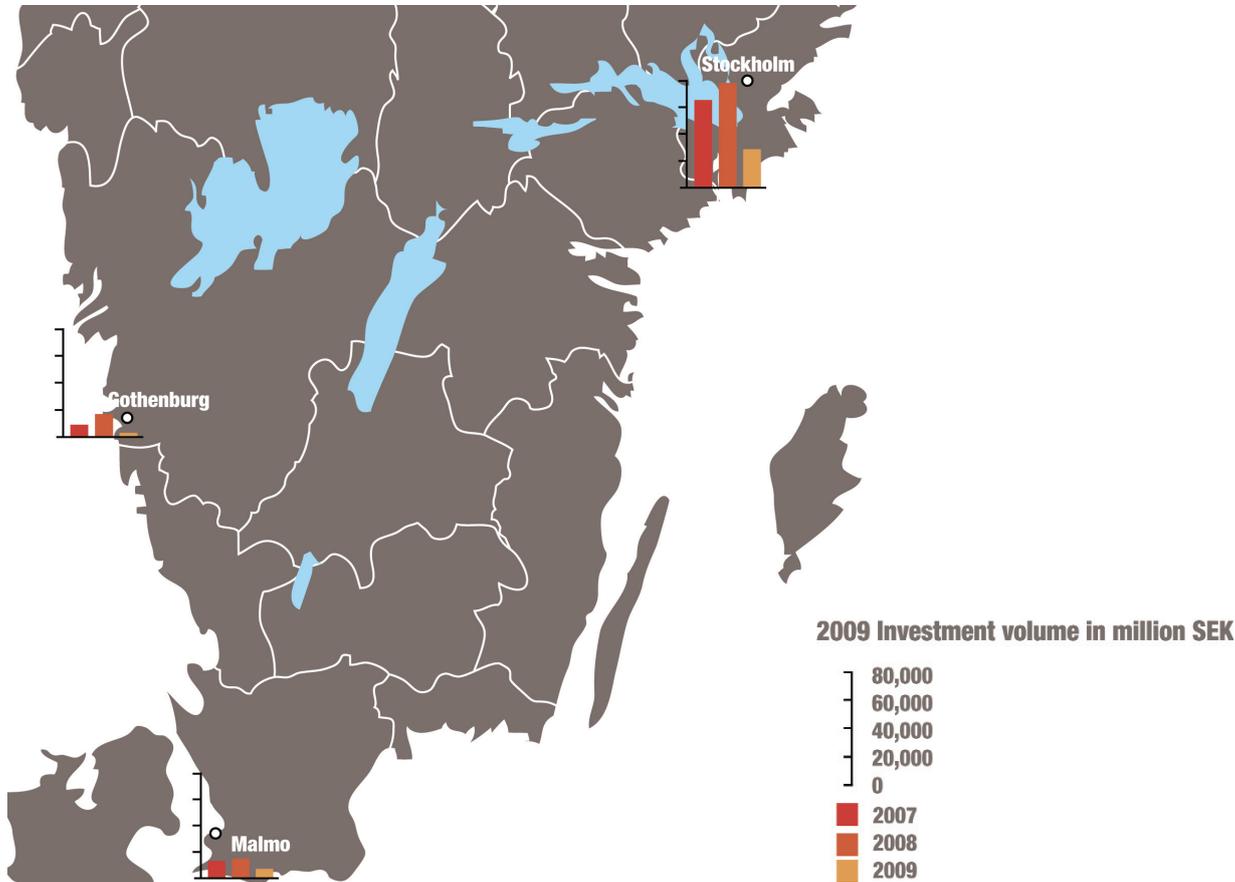
Prime yields in Stockholm



Source: Savills Research

Sweden investment bulletin

Survey map



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