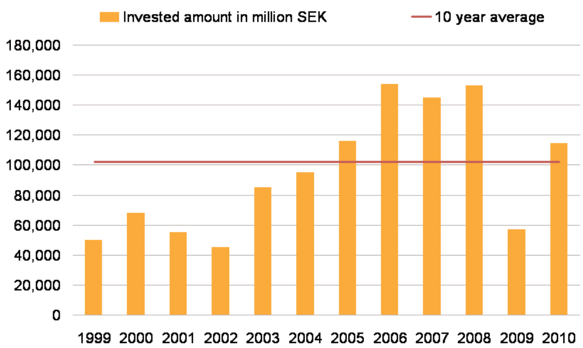
Sweden investment bulletin

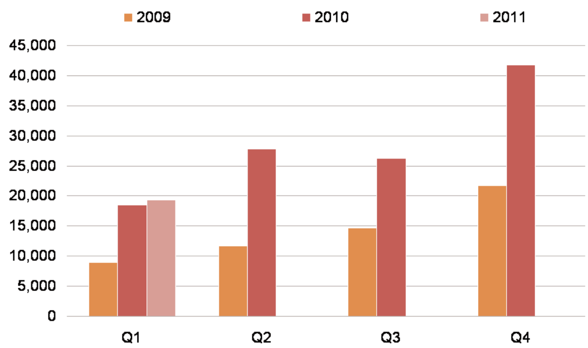
Spring 2011

Investment volume



Source: Savills Research

Quarterly evolution of investment volumes



Source: Savills Research

"Investor interest remains strong, driven by positive economic outlook and good leasing market prospects. We believe cross-border investment is likely to grow in the future but will face fierce competition from domestic investors."

Peter Wiman (Head of Research)

- Following the impact of the financial crisis on the investment market, the invested amount increased significantly quarter on quarter and finally totalled SEK 115 billion at the end of 2010, double the level reached the year before.
- The positive trend has continued into 2011 and the turnover in Q1 amounted to SEK 19.5 billion.
- The financial problems within the banking sector have made financing more difficult and expensive. Nevertheless, predictions of banks foreclosing on loans and large forced sales only occurred in a few cases.
- In spite of strong interest from international investors the market has been predominantly driven by domestic investors.
- The risk-averse climate has led to a shift of investors 'interest from commercial properties towards residential assets
- Prime yields hardened by approximately 50 bps during 2010 for prime offices, prime shopping centres and retail warehouses. This is, primarily driven by the strengthening office leasing market, the limited development pipelines and the lack of product on the market.

Economy and investment

Economic background

The financial crisis that occurred in 2008 caused a deep recession in Sweden, with five consecutive quarters of negative GDP growth, which ended in Q1 2010. The strength of Sweden's economic recovery in 2010 surprised forecasters and preliminary figures indicate a positive GDP growth of 5.5%. The Swedish economy is very export-oriented therefore when strong world exports slowed down the national industrial production dropped rapidly resulting in a loss of approximately 10 years of growth of the industrial production index. Finally, when the world trade picked up the Swedish economy quickly gained momentum. Today most of the Swedish macro-economic indicators are positive or have a very positive outlook and the main threats to the strong recovery are global uncertainties such as the fragile banking recovery and the ECB bailouts.

Overview of 2010 and first trends of 2011

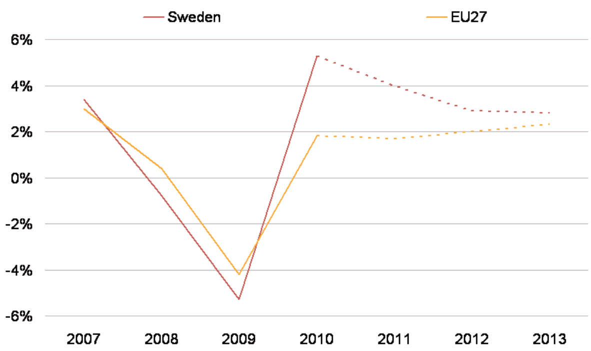
Following the impact of the financial crisis on the property investment market, the amount invested increased significantly quarter on quarter and finally totalled SEK 115 billion at the end of 2010, double the level reached the year before (SEK 58 billion in 2009). Ranked by turnover Sweden had the fourth highest turnover in Europe after the UK, Germany and France. The positive trend has continued into 2011 and the turnover in Q1 amounted to SEK 19.5 billion, which was an increase of 6% compared to Q1 2010.

The financial problems within the banking sector have made financing more difficult and expensive. Nevertheless, predictions of banks foreclosing on loans did not come true and there were only a fwe large forced sales. The volume of forced sales amounted to approximately SEK 10 billion or roughly 8.5% of the transaction volume in 2010. In spite of the tougher financing conditions, the number and the volume of portfolio transactions are rapidly picking up. The expanding share of portfolios in terms of volume is a result of approximately 20 transactions closed between 2009 & 2010 that were in excess of SEK 1 billion.

In spite of strong interest from international investors the market has been predominantly driven by domestic players. Since 2009 domestic investors have been net-buyers, which has not occurred since the early 2000's. The market has been dominated by financially strong investors such as Swedish institutions and pension funds but the market activity among domestic listed companies have recently surged.

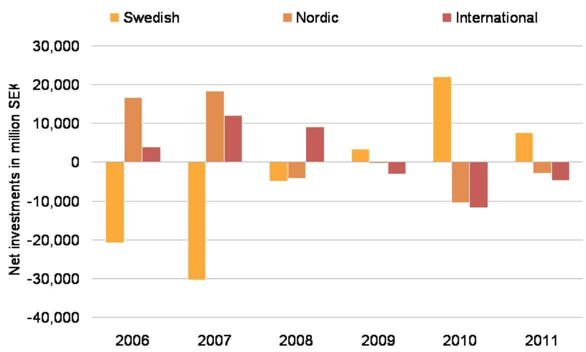
The risk-averse climate has led to a shift of investors 'interest from commercial properties towards residential assets. Indeed, the transaction volume of residential properties reached an all-time high during 2010 at SEK 48 billion, representing 42% of the total transaction volume. The record breaking volume in residential assets is largely explained by a number of large portfolio transactions with domestic pension funds as

GDP growth



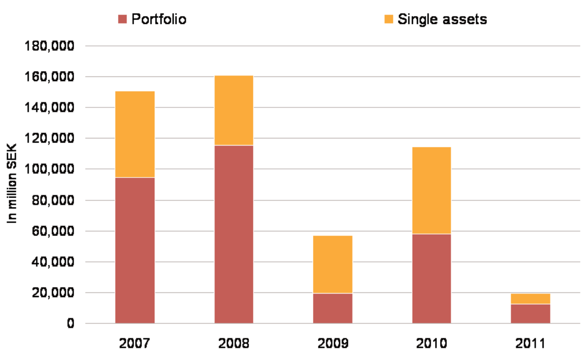
Source: Consensus Forecasts

Net investments



Source: Savills Research

Share of portfolios



Source: Savills Research

Yields and outlook

buyers. This is all the more interesting as many institutional investors have shown very modest interest for the residential segment during the years before the crisis. It should be noted however that the commercial property volume grew by 137% between 2009 and 2010. The increasing appetite for commercial properties has continued into 2011. The volume of retail assets sold in Q1 2011 has already reached half of the retail volume for the full year 2010.

Yields

Prime yields hardened within all property segments throughout 2010 and we have started to see slight closing signs of the yield gap between prime and secondary properties. This is primarily driven by the strengthening office leasing market, the limited development pipelines and the lack of product on the market. Prime yields hardened by approximately 50 bps during 2010 for prime offices, prime shopping centres and retail warehouses. However, yields for assets with significant risks of vacancies or deferred maintenance, remain much higher. These assets are also difficult to secure financing for.

Outlook for the remaining of 2011

Due to the strength of the recovery the Bank of Sweden has adopted a more aggressive scenario regarding lending rates. This will lead to higher financing costs and less leverage for geared investors. It could also turn into further upward pressure on yields.

A number of forced sales are underway or are likely to occur during the year but it will only represent a small fraction of the total turnover. There is still a high uncertainty regarding the large loan volumes that are due for renegotiation in 2012 and 2013.

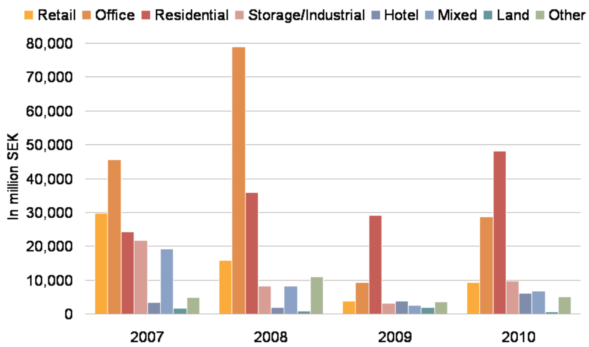
Due to the limited project pipelines in the office segment and the relatively low vacancy levels the leasing market will remain stable in most cities and continue to grow in Stockholm and Gothenburg.

The interest for commercial properties will continue to increase. We have already seen evidence of an increasing interest in retail, which is likely to strengthen.

Due to the very positive economic outlook and good leasing market prospects, Sweden is on the international investor's radar. Their interest is likely to grow in the future but they will face fierce competition from domestic investors.

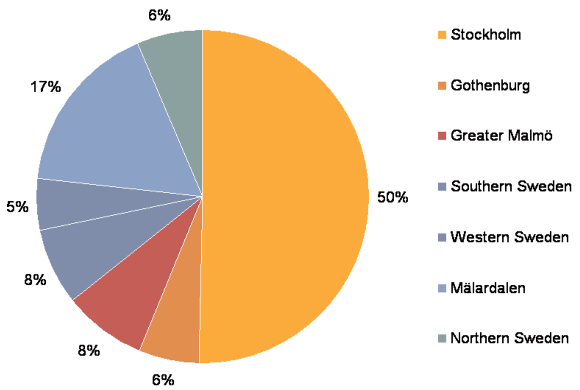
Yields will remain stable in most segments and we forecast that retail yields could strengthen further. The lack of prime assets could have a shrinking impact of the gap between prime and secondary properties. Tertiary assets will continue to be traded at yields far exceeding secondary yields.

Breakdown per type of assets



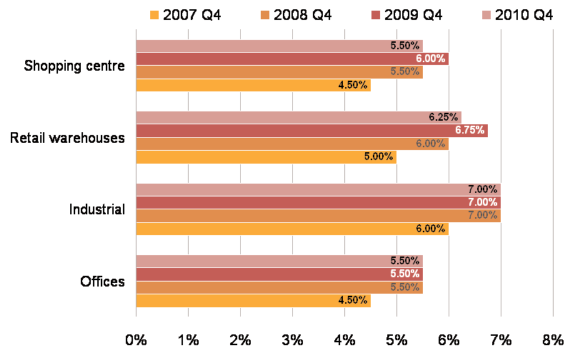
Source: Savills Research

Breakdown per location



Source: Savills Research

Prime yields in Stockholm



Source: Savills Research

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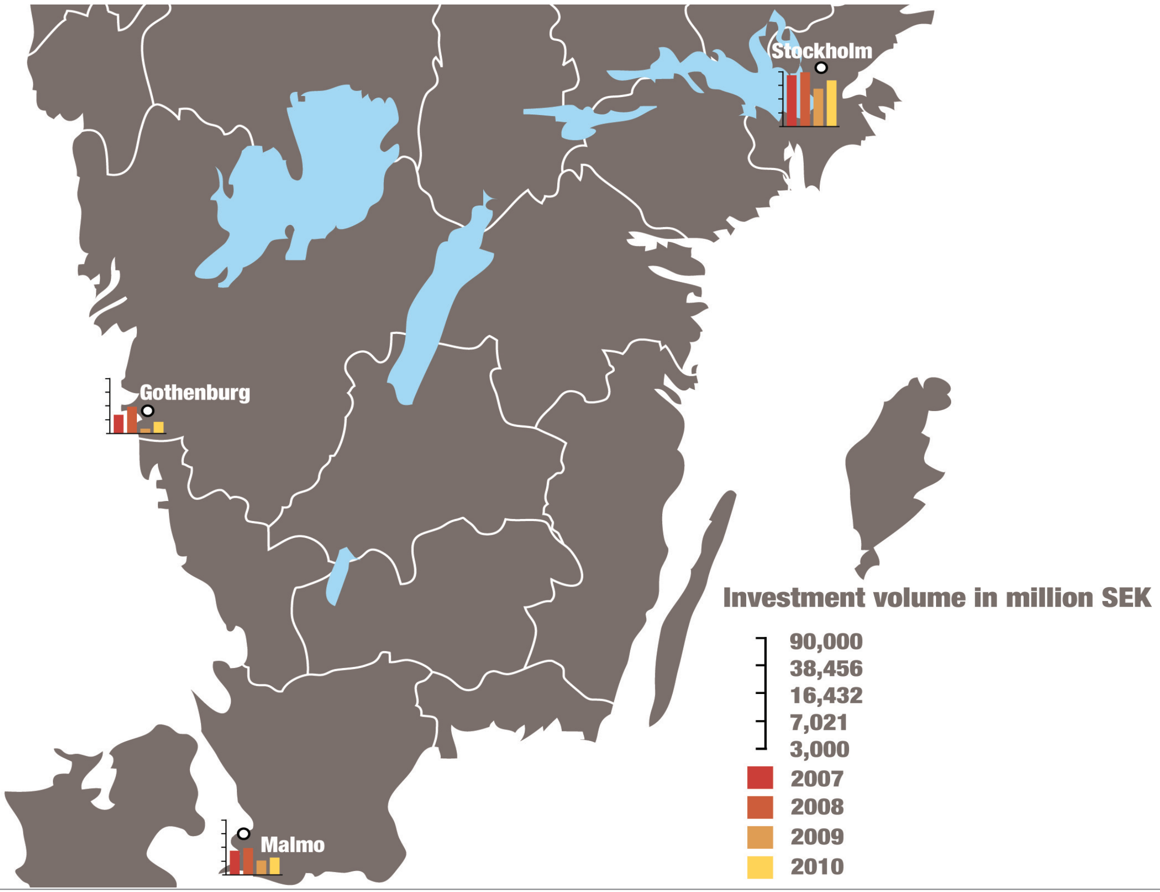
Survey map



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