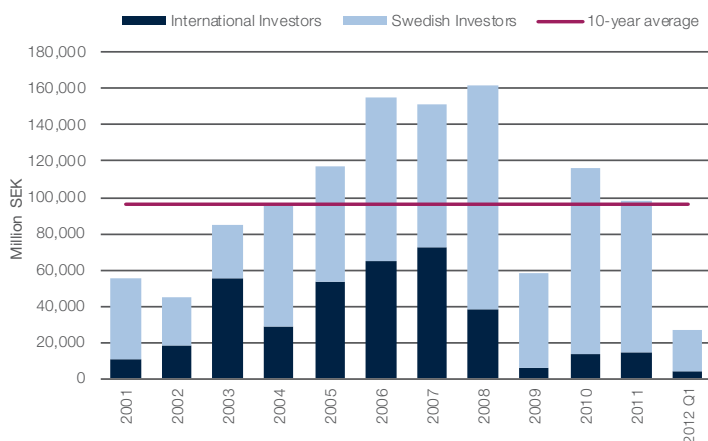


# Market report Sweden Investment

Q1 2012

GRAPH 1 **Investment volume**

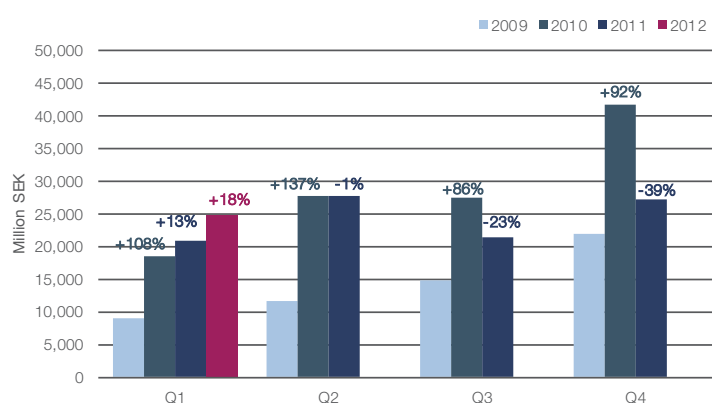
Still a liquid market with some signs of increasing interest from foreign investors



Graph source: Savills

GRAPH 2 **Investment volume per quarter**

Strong start in 2012 mainly due to a few large transactions



Graph source: Savills

## SUMMARY

### Overview

■ In line with most economies in Europe, Sweden's economy has experienced a mild downturn in the last two quarters. However, Sweden's solid public finances allows for an expansionary public policy in order to support the economy.

■ The transaction volume in Q1 2012 amounted to SEK 25bn, which was an increase compared to the corresponding quarter the previous year. However, a significant drop has been noted in the number of transactions carried through.

■ The market continues to be dominated by a risk-averse attitude among investors, leading to a strong focus on prime assets with secure cash-flows.

■ The renewed financial turmoil has directly led to a defensive position among the banks and thereby reducing the availability of bank financing.

■ The interest for property investments among domestic institutions remain firm and since a significant proportion of these are all-equity buyers it indicates prime yields remain stable in the short term.

■ The strong investor interest for prime assets and the relative lack of financing for secondary properties can most likely lead to an increased yield spread between prime and secondary assets.

“The strong transaction market in Q1 2012 is the result of a number of larger portfolio transactions, but the decline in the number of transactions indicate a more sluggish market.” Peter Wiman, Head of Research Savills Sweden

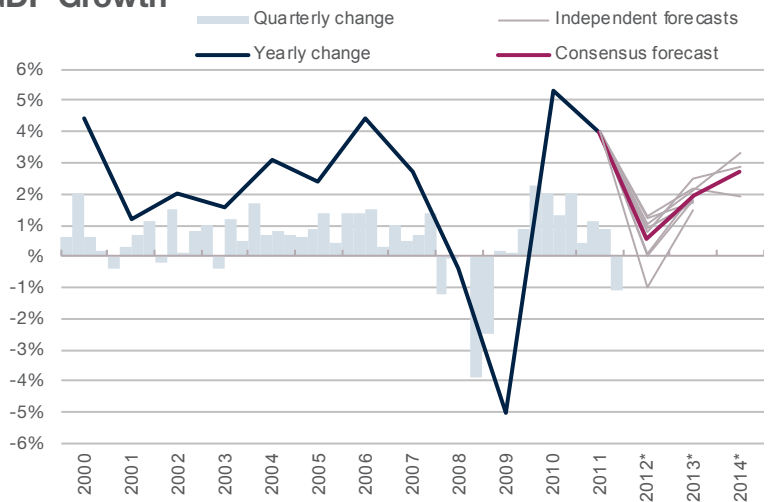
➔ **Economic background**

The Swedish GDP growth for the first three quarters of 2011 remained strong and the yearly growth for 2011 amounted to 4%, in spite of a slowdown in Q4 2011. However, many indicators points towards the fact that Sweden faces a more difficult year in 2012. Confidence indicators have fallen significantly, both in terms of the expectations amongst companies as well as amongst consumers, even though the last month has shown a strong pick-up in confidence indicators. The GDP is predicted to grow at a moderate pace of 0.6% in 2012 and 2% in 2013.

The slowdown is primarily related to lower demand for Swedish exports from the weakened euro-area. In the latter part of 2011 negative signals were noted with lower incoming orders and declining production index, which is obviously worrying for a small export-oriented country like Sweden. Furthermore, risks of a weaker housing market and uncertainty over future economic development mean that the savings ratio of households is increasing and is expected to be at a high level in the near future. Consumer consumption figures have weakened, which will further suppress the Swedish growth in 2012. A deteriorating economic climate may lead to slowing down investment plans from companies, resulting in a weakening labor market with rising unemployment rates. However, Sweden's stable public finances leave room for an expansionary monetary

“Despite a moderate year in transaction volumes, Sweden was ranked by turnover as number four in Europe after the UK, Germany and France.” Peter Wiman, Head of Research Savills Sweden

GRAPH 3 **GDP Growth**



Graph source: Statistics Sweden, the nine major forecast providers (banks and institutions)

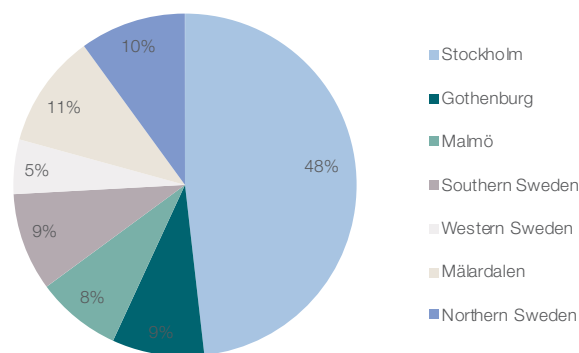
policy. This will most likely contribute to a rapid increase of GDP and employment from the end of 2012.

**Overview of 2011 and first trends for 2012**

The transaction volume for the first quarter of 2012 amounted to approximately SEK 25bn, which is 18% higher compared to the corresponding quarter in 2011 (approximately SEK 21bn). A

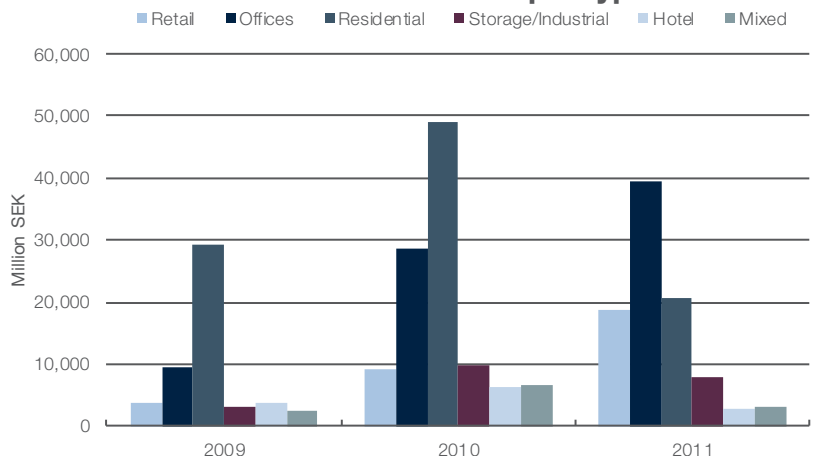
significant difference is the number of transactions, which has decreased by 40% compared to Q1 2011. The relatively strong transaction volume can be explained by larger transactions such as the sales of residential portfolios from public housing companies and also a large take-over made by the property company Klöver accounting for approximately SEK 5.7bn alone. This trends may indicate that the market is weakening.

GRAPH 4 **Breakdown of the volume in 2011 per location**



Graph source: Savills

GRAPH 5 **Breakdown of the volume in 2011 per type of asset**



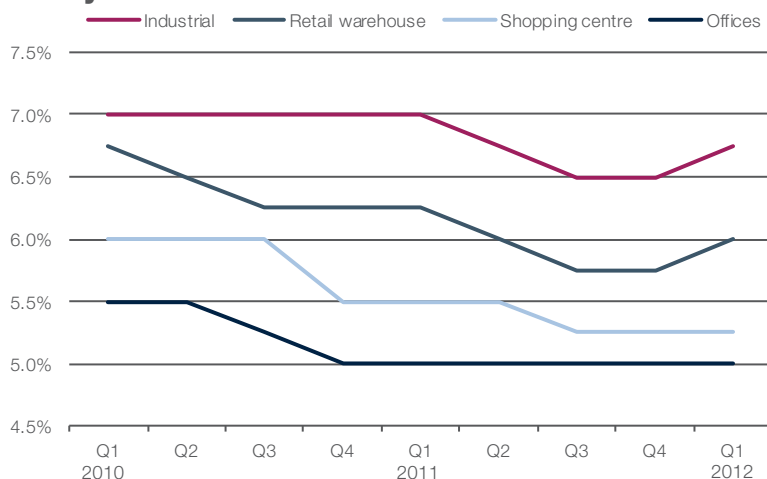
Graph source: Savills

The total transaction volume in 2011 amounted to approximately SEK 98bn, which was a decrease of 17% compared to the previous year. The property market in 2011 had a very strong start in the first half of the year but experienced a significant slowdown towards the second half, especially in the last quarter, which continued into 2012. The fourth quarter, which normally is the strongest quarter in terms of transaction volume was in line with the previous quarter and 39% below the level of the fourth quarter in 2010. Despite a moderate year in terms of transaction volumes, Sweden was ranked by turnover as number four in Europe after the UK, Germany and France.

The slowdown in transaction volume can largely be explained by the financial turmoil first noted in the summer of 2011, which resulted in a more cautious approach in the second half of the year. The financial distress spread through the banking system, which tightened their lending policy, resulting in difficulties to obtain acceptable financing for property investments. Due to the financial situation, banks have now much higher demands concerning the underlying asset with focus on tenants, lease terms, property type, fit-out, location etc. The amount of forced sales increased moderately in 2011 to about SEK 12bn (SEK 9.5bn in 2010). So far in the first quarter of 2012 the amount of forced sales has been less than SEK 500m.

## Yields

GRAPH 6 Prime yields



Graph source: Savills

The main trend since the second half of 2011 has been the widening gap between yields for prime and secondary properties. Prime properties attracts all-equity or low geared investors that easily can obtain financing as opposed to secondary properties, which are significantly tougher to obtain financing for. The strong investor interest for prime assets indicates that prime yields will remain stable as opposed to secondary, which are expected to soften.

## Expectations for 2012

“The risk-averse sentiment among many investors is likely to lead to preference for prime assets and a tougher market for secondary assets resulting in an increased yield spread between prime and secondary properties.”

Peter Wiman, Head of Research Savills Sweden

## Retail market

### Renewed interest for retail properties

Investor interest for retail properties has been weak since the recession in 2008 but the interest has gradually recovered. In 2011 retail property transactions accounted for about 20% of the total property transaction volume. This is a significant increase compared to 8% in 2010 and 6.5% in 2009.

GRAPH 7 Retail transaction volume



Graph source: Savills

Retail transaction volume amounted SEK 18.8bn, of which about 65% consisted of shopping centres. The four largest transactions with a volume over SEK 1bn accounted for almost half the transaction volume of which, three were portfolio transactions including many well-known shopping centres such as the Stockholm inner city shopping malls Fältöversten, Västermalmsgallerian and Ringen Centrum (SEK 3.9bn) bought by AMF. A large yield gap between prime and secondary is evident where prime properties were traded at yields of approx. 5%, whilst secondary properties were sold at significantly higher yields.

The retail segment is one of the few segments where international investors have been able to out-bid domestic investors. International investors represented more than one-third of all retail acquisitions in 2011. International investors have been focusing on prime retail warehouse and shopping centre assets. During the first quarter of 2012 there have not been any large retail transactions, mainly due to a lack of high-quality assets on the market. The outlook for 2012 was initially fairly pessimistic, but strong figures in private consumption for January and February motivates a more optimistic view of the sector.

→ The development of the property market for the remainder of 2012 will be to a high extent, determined by the availability of bank financing. Currently there are few indications of a pick-up in lending due to the uncertainties of the European sovereign debt situation and the possible effects on the banking system. Since the demand for prime properties is still strong the question will be whether geared investors will accept a lower return spread or if we will see a yield relaxation as a compensation for lower net return to investors.

Institutions and especially the Swedish pension funds favor the market as they are becoming increasingly risk averse and at the same time experience less competition from investors that are dependent on leverage. Furthermore, foreign investors are starting to come back to the Swedish market, after being strong net sellers during 2010. In

2011 international investors were still net sellers but their acquisition volume had more than doubled compared to 2010 and in Q1 2012 they were in fact net buyers.

Despite the negative macroeconomic environment, the outlook for Sweden is still more optimistic than the majority of other European markets, mainly due to stable public finances, which can allow for an expansionary monetary policy. Our assessment is that the risk-averse climate will result in a continued focus amongst investors towards the larger metropolitan areas and prime properties. Despite the fact that the transaction volume was on a comparatively high level in the first quarter of 2012, the current economic environment causes major uncertainties for the rest of the year.

## OUTLOOK

### Continued strong interest for prime properties in the larger metropolitan areas

- The strong focus on prime assets will likely result in an increasing yield-gap between prime and secondary assets.
- There is currently a lot of equity chasing investments, but external financing is likely to continue to be a problem.
- Continued strong focus on properties with secure cash-flows with strong covenants.
- Increasing interest from municipalities to review their property holdings and to consider property disposals (mainly residential and public properties) as a way of freeing up capital for other investments.
- A slower pace on the transaction market is likely to result in smaller average deal sizes.

Prime yields	Q4 2011	Q1 2012
Stockholm offices	5.00%	5.00%
Gothenburg offices	5.00%	5.00%
Malmoe offices	5.25%	5.25%
Retail warehouse Sweden	5.75%	6.00%
Shopping centres Sweden	5.25%	5.25%
Industrial Sweden	6.50%	6.75%

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