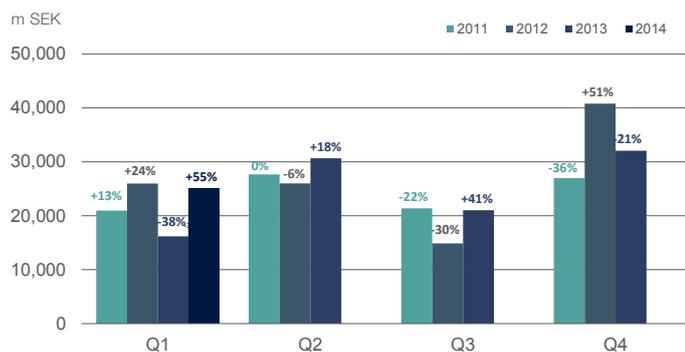


Market report Sweden Investment

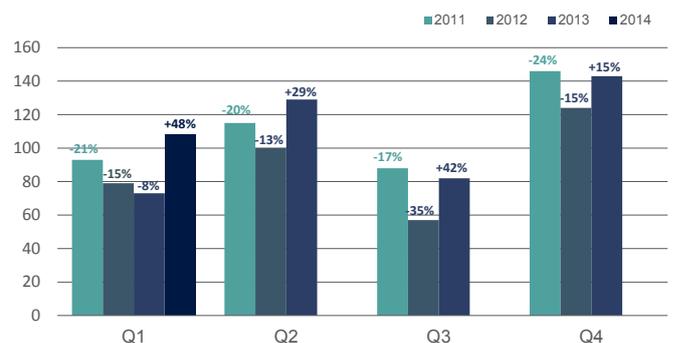
Q1 2014

GRAPH 1 **Investment volume** Strong turnover in the first quarter



Graph source: Savills

GRAPH 2 **Number of transactions** Transaction pace has continued to grow



Graph source: Savills

SUMMARY

Increasing investment turnover indicates a continued strong property market

■ In spite of a weak fourth quarter the investment turnover was in line with the long term average and the investment market has picked up significantly in 2014, both in terms of turnover and number of transactions.

■ Sweden has retained its fourth place in Europe in terms of investment turnover and is a favoured market by many international investors, but they are struggling to outcompete domestic investors.

■ Bank financing has become more readily available to most investors and a higher LTVs and lower margins has been noted in late 2013 and early 2014.

■ Prime assets remains very much in focus, but an increased interest for secondary assets has been noted as certain investors are targeting higher returns. It is likely that the yield spreads between prime and secondary will decrease.

■ The Swedish economy has continued to improve and Sweden is expected to outperform most European countries in the coming years, but the future growth is still dependent on a better economic climate in the Nordics and in Europe.

.....
 “The amount of equity targeting the property market combined with an easing on the lending market indicates and is expected to lead to a continued strong market for properties in 2014”. Peter Wiman, Head of Research Savills Sweden

→ **Economic background**

The Swedish economy grew modestly in the beginning of 2013, but a very strong fourth quarter pushed the yearly GDP-growth up to 1.5 %, which was well over most forecasts. Ever since the financial crisis in 2008 Sweden has outperformed most countries in Europe and also has the benefit of having sound and strong public finances. Most forward looking indices, such as PMI, have continued to increase since the beginning of the year, which indicates a continued improvement of the economy. However, Sweden is a small and open, export-driven economy and is as such highly susceptible to negative changes in the general economic climate and even more so when it concerns Northern Europe. The slowdown in the Norwegian economy has already had an impact on Swedish industrial exports.

Many other macro-economic figures are moving in a positive direction, such as increasing employment and the number of bankruptcies are decreasing. The last years of tax cuts have come to an end as 2014 is an election year and combined with the low interest rates consumer confidence is growing. The inflation pressure is very low at the moment and deflationary risks are frequently discussed in the media. If the economy continues to recuperate it is likely that the Bank of Sweden will consider increasing the lending rate towards the end of the year or early 2015. Our prediction is that Sweden will outperform in Europe in the short term.

“Competition for prime assets is fierce and yield levels have reached historically low levels in some segments” Peter Wiman, Head of Research Savills Sweden

GRAPH 3 **GDP Growth Sweden expected to outperform the Eurozone**



Graph source: Focus Economics / NIER

Transactions

The transaction volume in 2013 amounted to SEK 100bn, which is slightly over the long-term average, but approximately 7% lower compared to 2012. The first quarter of 2014 has started with a strong transaction market, with investment volumes amounting to just under SEK 26bn, which was 55% higher compared to Q1 2013. Along with the increase in investment volume the number of transactions has increased significantly

by 48% compared to Q1 2013. Both figures are a good indicator for the very high interest of property investments amongst all types of property investors.

There are a number of possible explanations and drivers behind the strong market situation. One of the most important is the supply of equity targeting property investments. With bond yields at low levels domestic institutions have increased their

exposure toward properties chasing higher returns and significantly increasing the supply of equity on the market. The lenders have been cautious to new lending following the crisis in 2008 as they have been focusing on strengthening their own balance sheets, but this changed in early 2013 and the possibility of obtaining bank financing has gradually improved. Competition on the lending market has led to higher LTVs and lower margins.

Cross-border activity increased in 2013 to approximately 44% compared to 27% in the previous year. The high activity is a result of foreign investors disposing their assets in Sweden while the share of foreign investors buying assets is still at very modest levels. However, this is not an indication of a lack of interest from international investors, but rather a result of foreign investor failing to outbid domestic investors in structured processes.

Yields

The supply of equity combined with high investor interest and an improved lending market has led to high competition for properties being put on the market. Prime is still the preferred investment grade for many investors and the competition for the few assets on the market has led to aggressive pricing resulting in historically low yields, especially for office assets in Stockholm, Gothenburg and Malmö. Prime yields in other segments have remained firm. As prime yields have reached very low levels a significant number of investors across all property segments has started focusing on secondary assets chasing the opportunity for higher returns, which could lead to a further yield compression between prime and secondary.

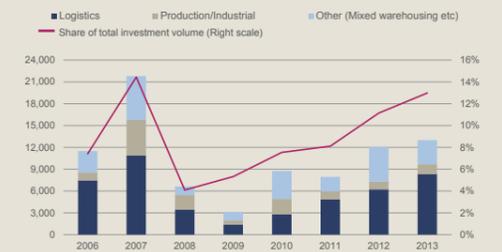
“Prime remains the favoured asset type of many investors, lack of assets on the market and aggressive pricing has led to a stronger interest for secondary assets as these offer higher returns.” Peter Wiman, Head of Research Savills Sweden

Industrial and warehousing assets

Steady growth of the industrial & warehousing sector

The interest for industrial and warehouse investments has increased gradually in recent years. The number of investors that are actively buying into the segment is increasing, which combined with owner-occupiers selling off assets is pushing investment volumes up. A significant amount of properties are still held by owner-occupiers and we expect disposals to continue in the near future as companies continue to trim balance sheets.

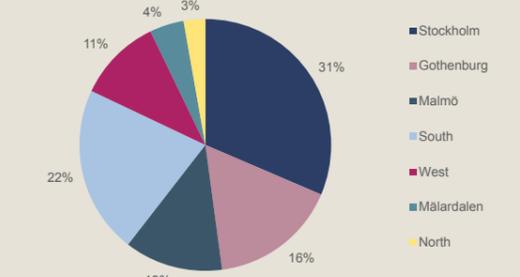
GRAPH 7 **Transaction volume of logistics and industrial**



Graph source: Savills

Sales of large logistics units dominate the market from an investment volume perspective and are one of the segments where foreign investors have been able to outcompete domestic buyers, especially for prime assets. However, the number of transactions is also increasing which is a sign of the increasing popularity for this asset class.

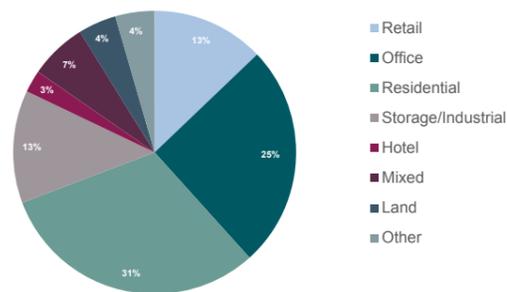
GRAPH 8 **Geographic distribution of industrial, warehouse and logistics in 2013**



Graph source: Savills

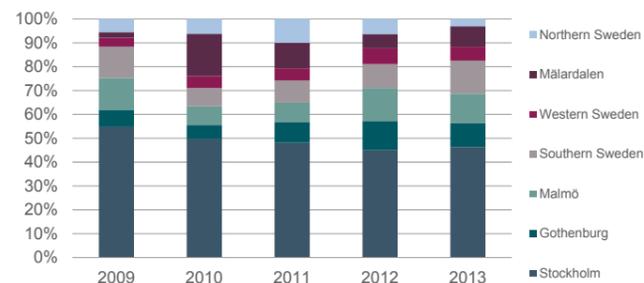
We expect interest for the segment to remain high throughout 2014 as it is one of the segments which still offers high returns, especially compared with prime offices in metropolitan areas.

GRAPH 4 **Breakdown of the volume per type of asset 2013**



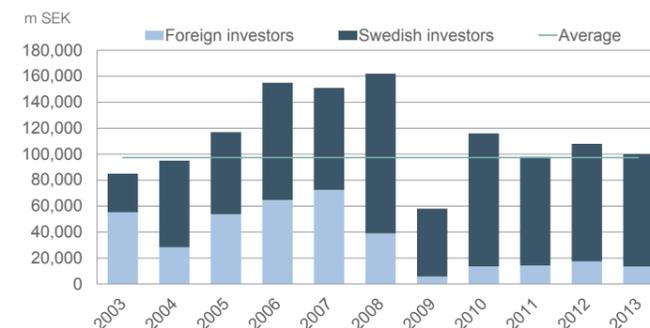
Graph source: Savills

GRAPH 5 **Breakdown of the volume per location 2013**



Graph source: Savills

GRAPH 6 **Transaction volume 2013 volume in line with the long-term average**



Graph source: Savills

→ **Outlook for 2014**

The improvement of the Swedish economy in late 2013 and early 2014 combined with positive forward looking indicators point towards a further improvement of the economy and Sweden is expected to continue to outperform most European countries in the near future. In spite of a modest (2%) deficit in the public finances Sweden still can allow for increased public spending if it is deemed necessary to support the economy in case of a downturn. In spite of the historically low yields in some segments the supply of equity is ample, interest rates are low and LTVs and margins are becoming more attractive – all of which indicates that the strong investment market is likely to continue throughout 2014 and into 2015.

The bond market is also supplying investors with an attractive alternative to finance properties. For investors with very strong balance sheets it is attractive compared to bank financing and for highly-g geared investors it

is a tool to achieve higher gearing and thereby improving the return on equity. Bond emissions in Q1 2014 have remained at high levels and are expected to remain so in the coming quarters.

The market for prime assets is very strong and is likely to be dominated by domestic institutions and especially the Swedish pension funds as they tend to be risk averse. The interest from foreign investors is strong but so far they have been unable to compete with domestic investors for prime offices, but they have been successful in acquiring prime retail warehousing, logistics and shopping centres. ■

Prime yields	Q1 2013	Q3 2013	Q1 2014
Stockholm offices	4.75%	4.50%	4.50%
Gothenburg offices	5.00%	5.00%	5.00%
Malmö offices	5.50%	5.50%	5.50%
Retail warehouse	5.75%	5.75%	5.50%
Shopping centres	5.25%	5.25%	5.25%
Logistics	6.50%	6.50%	6.50%

OUTLOOK

Continued strong interest for prime properties in the larger metropolitan areas

- Prime commercial assets within the larger cities are likely to be the preferred investment for many investors, but interest for higher yielding assets is quickly picking up.
- The market risk in terms of vacancies and oversupply is estimated to be limited within most segments.
- The improving lending market is one likely explanation for the increasing investment pace and the number of transactions are expected to remain at high levels.
- The lack of willing sellers could potentially lead to a situation with lower investment turnover.
- Considering that 2014 is an election year it is unlikely that Counties and Municipalities will dispose of property holdings, which could lead to lower investment volumes within the residential segment and public properties.
- A scarcity of prime assets should lead to an increased interest for secondary assets and the yield gap between prime and the best secondary is expected to shrink.

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Savills plc

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