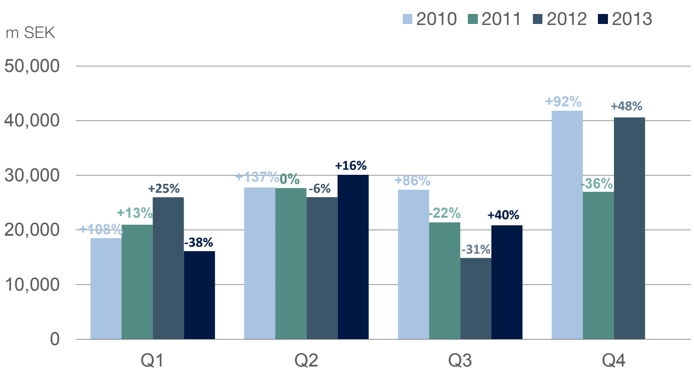
Market report
Sweden Investment

Q3 2013

GRAPH 1

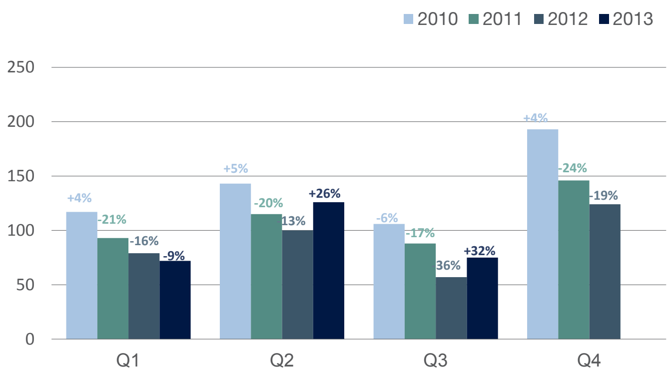
Investment volume Strong improvement after a weak first quarter



Graph source: Savills

GRAPH 2

Number of transactions Increased transaction pace in the last two quarters



Graph source: Savills

SUMMARY

Weak start gradually improving

■ The weak start on the investment market in 2013 has gradually improved and the transaction volumes has increased in the last six months.

■ The negative trend of a continuous decline in the number of transactions carried through was broken in Q2 and has improved for two consecutive quarters.

■ Bank financing has become more readily available as all domestic banks along with primarily Danish and German banks are open to property lending.

■ Prime assets remains very much in focus, but an increased interest for secondary assets has been noted.

■ The Swedish economy has improved and many macro-economic indicators have improved in recent months indicating a turn-around.

"The scarcity of prime assets on the market has led to a stronger interest in secondary assets. We expect the yield gap between prime and the best secondary products to shrink". Peter Wiman, Head of Research Savills Sweden

Economic background

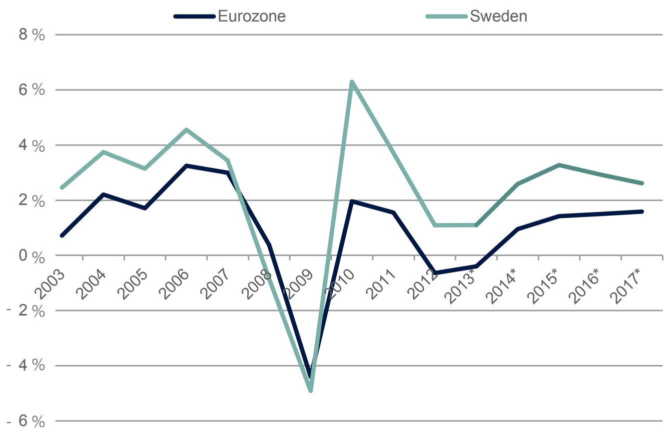
The Swedish economy grew by 1.1 % in 2012 and our consensus forecast indicates a growth of 1.3 % in 2013. In a European context this is regarded as well above average, but the later part of 2012 and early 2013 marked a slowdown in the Swedish economy and most economic indicators worsened significantly. Being a small and open export-driven economy means that Sweden is highly susceptible for negative changes in the in the general economic climate and more so when it concerns Northern Europe. The economic climate started moving in a positive direction during spring and forward-looking sentiment indicators, such as PMI and ESI, improved rapidly. During the autumn evidence have been noted in hard indicators, such as reduced unemployment and decreasing bankruptcy rates. The exchange rate against both the USD and the EUR remains a worry and is of concern for large exporting companies.

2014 is an election year for the Swedish parliament and we expect the sitting government to increase spending and another tax cut for households has already been suggested, which could fuel domestic consumption. Consumer confidence has continued to grow and low interest rates combined with higher disposable income due to tax cuts in recent years should increase spending in the near future, especially considering that savings ratios has been at very high levels since the financial crisis.

> "Financing conditions has improved significantly primarily for prime and secondary assets" Peter Wiman, Head of Research Savills Sweden

GRAPH 3

GDP Growth



Graph source: Focus Economics / NIER

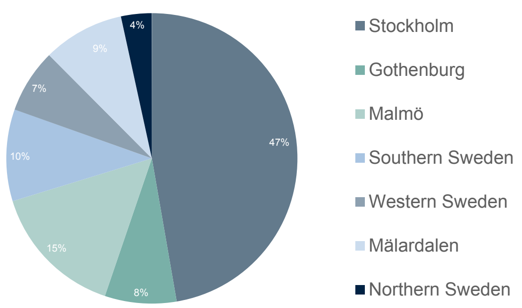
Our prediction is that Sweden will outperform Europe in the short term.

Investment activity

Following an exceptionally strong end of 2012, the first quarter of the year was weak in terms of investment activity. The activity gradually picked up and the investment volume for the first three quarters amounted to SEK 68bn, which is slightly higher compared to the same period 2012. The activity in Q3 was high with a turnover of SEK 21bn, which was an increase of more than 40% compared to the same quarter last year. The continuous drop in the number of transaction which was ongoing for nine consecutive quarters since 2011 was finally broken in Q2 2013. Both Q2 and Q3 2013 have shown an increase in the number of transactions carried through.

GRAPH 4

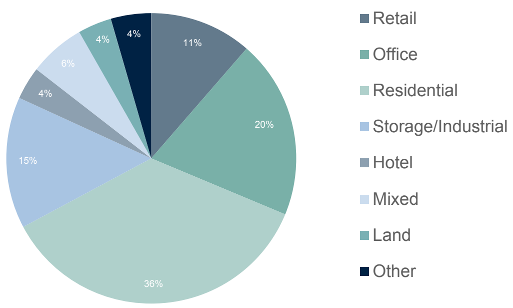
Breakdown of the volume per location in Q3 2013



Graph source: Savills

GRAPH 5

Breakdown of the volume per type of asset in Q3 2013



Graph source: Savills

The main explanation for the increasing transaction pace is two-fold. Firstly, the possibility of securing bank financing has improved significantly. Currently all Swedish banks are active lenders along with a handful of mainly German and Danish banks. However, bank financing is still in limited supply and banks are focusing on existing clients and lending towards prime assets/portfolios and assets with low perceived risks, such as residential and public assets. Secondly, the recent years focus on prime assets has led to an aggressive pricing on prime properties on the market and they are still scarce in number, which has led to some investors widening their investment criteria to include good secondary assets as well.

Crossborder activity was limited in 2012. Approximatly 27% of all transactions were crossborder. The pace of crossborder activity increased during the first three quarters of 2013 and represented more than 40% of the total activity and only 8% of the transactions had foreign investors as buyers during this period. The explanation is that quite a few funds have reached the end of their holding period and are entering a disposal phase.

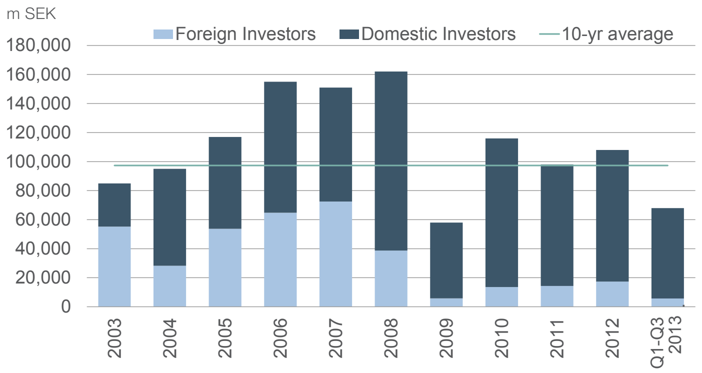
Yields

The ongoing focus on prime assets has led to aggressive pricing and low yields on the few prime assets that has been put on the market due to strong competition, especially from Swedish institutions and pension funds. Prime yields have remained firm across all property segments. A yield hardening has been noted for the best secondary assets within the office segment in the major cities. The market for poor secondary and tertiary assets is still highly illiquid and often opac, with unclear views on pricing. These assets are in most cases hard to secure financing for.

> "After nine quarters of reduced number of transactions, investment activity picked up since Q2 thanks to better financing conditions and a widening range of assets targeted by investors." Peter Wiman, Head of Research Savills Sweden

GRAPH 6

Transaction volume



Graph source: Savills

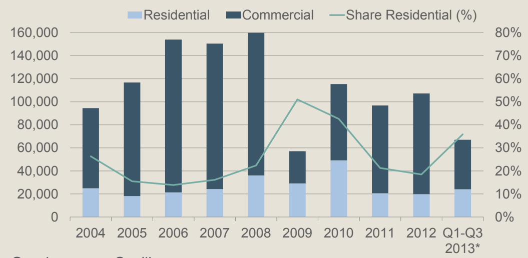
Residential remains a favored asset class

Strong market for residential assets

Residential properties are in high demand in the current market. Residential transactions in the first three quarters of 2013 amounted to approx. SEK 25bn or 36% of the total transaction volume. This clearly illustrates the strong market interest for investments into residential assets as these are perceived as low-risk investments and have the benefit of being relatively easy to obtain financing for. The residential turnover already exceeds the full year figure achieved in 2012, so we expect a strong figure for 2013.

GRAPH 7

Investment volumes for commercial and residential properties

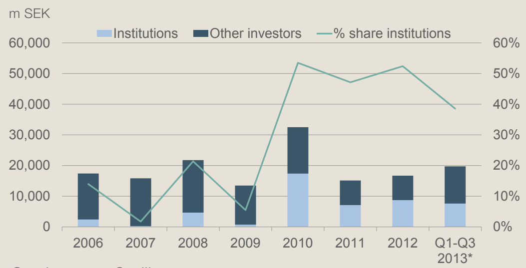


Graph source: Savills

Additionally, residential properties available on the market is high as municipalities and public housing companies have reduced their residential portfolios in order to fund renovation projects and new developments along with funds unwinding and a few forced sales.

GRAPH 8

Buyers of residential assets



Graph source: Savills

Swedish pension capital has been dominating the residential property segment, representing approx. 50% of all investments made in 2010-2012. Their market share has dropped below 40% in 2013 as new investors have increased their investments and are mainly domestic listed and private property companies.We expect the residential segment to remain as a favored asset class along with public properties.

Outlook for the remainder of 2013 and 2014

Most macro-economic indicators indicate a strengthening of the Swedish economy and it is expected that Sweden will continue to outperform most European countries in the near future and the healthy public financing still allow for increased public spending if it is deemed necessary to support the economy.

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 economic 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 where we expect yields to remain stable.

We have started to notice that property lending is slowly picking up, and particularly so for prime assets where margins have dropped continuously since end of summer 2012. For assets not regarded as prime, bank financing is still scarce which has led to a strong interest for different methods of alternative financing.

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 and at the same time experience less competition from investors that are dependent on leverage. 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	Q4 2012	Q1 2013	Q3 2013
Stockholm offices	4.75%	4.75%	4.50%
Gothenburg offices	5.00%	5.00%	5.00%
Malmo offices	5.50%	5.50%	5.50%
Retail warehouse	5.75%	5.75%	5.75%
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

- Strong interest for prime assets and a lack of properties on the market will keep prime yields stable.
- Bank financing has become more readily available and lending is expected to keep grooping.
- A scarcity of prime assets should lead to an increased interest for secondary assets and the yield gap betwwen prime and the best secondary products is expected to shrink.
- Institutions and pension funds are likely to keep pursuing prime investments and focusing on assets with secure cash-flows and strong covenants.
- Residential and public properties will continue to be preferred by a number of investors due to the low risk-profile.

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