

Market report Kista

Q1 2016



SUMMARY

■ The Swedish economy has grown at a fast pace and most forecasts have been gradually adjusted upwards throughout the year. Kista is located within Stockholm County which accounts for approximately 33% of Sweden's GDP.

■ Kista is Europe's leading ICT (Information and Communication Technology) cluster and more than 1,400 companies including 300 ICT companies are located within Kista.

■ The open vacancy rate has reached 14% and by the end of 2016 the vacancy rate is forecast to reach almost 28%, assuming that current rental volumes remain static. The majority of the added vacant space in 2016 is of a poor standard.

■ Currently, due to the high current vacancy rate combined with upcoming vacancies, a downward pressure on the rental levels is predicted in the near future, especially for lower grade properties where the supply is higher and the demand is weaker.

■ The vision is to make Kista an even more attractive and vibrant area in order to attract companies and labour. Kista is considered as an important hub for future planning of the Stockholm region and today there are several ongoing planning and construction projects to further develop the area.

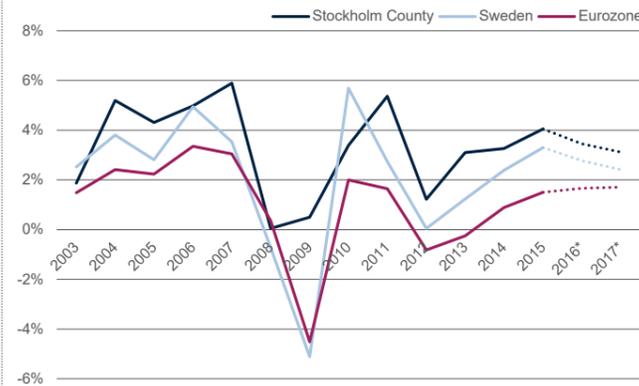
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 "Yields in general hardened throughout 2015. Yields in Kista have continued in a downward direction since 2010 and by the end of 2015 they reached historically low levels" Peter Wiman, Head of Research Savills Sweden

→ Kista - Stockholm as a driving force

During 2015 the Swedish economy grew at a fast pace and reached a growth rate of 3.3% according to Oxford Economics, which is a strong figure from a European perspective. Most forecasts have been gradually adjusted upwards throughout the year and Oxford Economics predicts a growth rate of 2.8% in 2016 and 2.4% in 2017. The positive adjustments in the forecasts are mainly due to increased domestic consumption, increased investments into residential developments and effects of the current migration flow, which is expected to increase government spending.

Stockholm County is the largest county in Sweden and the main contributor to Sweden's economic growth. Stockholm County has one of the highest GDP per capita in Europe and accounts for approximately one third of Sweden's GDP. Kista is a suburb located just over ten kilometres north of Stockholm City Centre and is one of the fastest growing suburbs in Sweden. The accessibility to Kista is good and the travelling time is about 15 minutes from Stockholm city centre either by car, commuter train or the subway. Kista is known for its high density of ICT companies (Information and Communication Technology) that developed during the '80s and '90s due the fast expansion in the IT-sector. Today, Kista is Europe's leading ICT cluster with more than 1,400 companies including 300 ICT companies in the

GRAPH 1 **GDP growth** Significantly stronger growth in Stockholm County



Graph source: Oxford Economics & Focus Economics

CBD. Ericsson, Microsoft and IBM are just a few of the major ICT companies in the area. Kista also accommodates research institutes, universities and schools such as The Royal Institute of Technology, Stockholm University and Stockholm Science & Innovation School.

depending on the condition of the property. Grade A is defined as attractive newly produced or fully refurbished properties, Grade B properties have a modern standard and have been refurbished to a modern standard, Grade C properties have a low to fair standard and Grade D properties are in need of a full refurbishment.

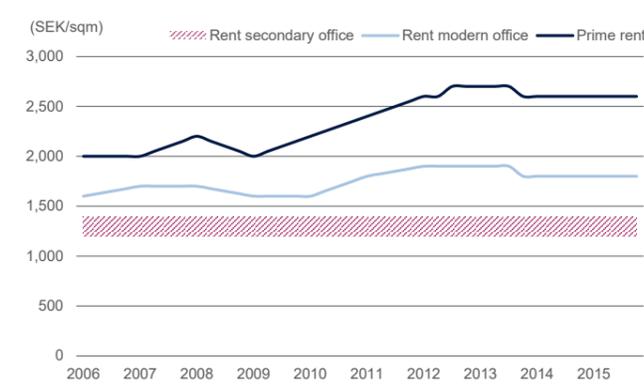
Supply/Ownership

The current office supply in Kista amounts to approximately 850,000 sqm and the top five largest owners holds 77% of the total supply. Four of these are large Swedish property companies and institutions, and the fifth company, Starwood Capital Group, is an American private equity firm. The supply in Kista can be categorised into four groups

Development pipeline

The construction pace in Kista is relatively high compared to other suburbs in the Stockholm region and between 2010 and 2016 an annual average of approximately 22,000 sqm of office space has been added to the market. Most of the production pipeline was fully pre-let prior to construction start or almost fully let

GRAPH 2 **Rents Kista**



Graph source: Savills

before completion. In 2015 two office buildings, containing a total of 38,000 sqm, were completed and fully pre-let to Ericsson prior to construction commencing. During 2016 one office building containing a total of 27,000 sqm will be completed, where Tele2 has signed a lease for 20,000 sqm on a 12-year contract.

stock and land readily available for development. Depending on the condition of the property the vacancy rates differ. Grade A and B properties account for 4.7% of the total vacancy which is significantly lower than for Grade C and D properties which accounts for 9.3% of the total vacancy. This indicates that the demand for office space in Grade C and D properties is fairly low.

The completion of the three schemes developed for Ericsson and Tele2, could have a significant impact on the vacancy level since both companies have announced that they are terminating a number of leases in Kista. In total they will vacate office areas amounting to approximately 118,000 sqm during 2016, when they relocate to their newly developed

Vacancies

The vacancy rate in the office market is high in Kista compared to other submarkets within greater Stockholm. By the end of 2015 a vacancy rate of 14% was noted, however, the historical vacancy levels have always been higher compared to Stockholm CBD for example. This is likely due to fast expansion among the tenants combined with a relatively small office

Breakout section

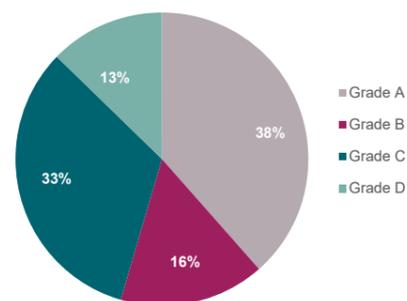
Why has Kista failed to attract new-tech?

Kista has long been ranked as one of the world's leading high-tech clusters and has been very successful with a strong growth and innovation performance. Kista is the home for many large ICT giants such as Ericsson, IBM and Microsoft but also smaller cutting edge companies are located in Kista and the start-up rate is high. Although Kista is an attractive area for ICT companies to locate to, many new-tech companies have chosen to locate to other areas.

Companies such as Skype, Google, Spotify, King, Klarna, Mojang and Dice/EA have chosen to locate to the city centre where rents are significantly higher compared to Kista. One of the reasons for the location is that the competition for talented employees is fierce and these companies need to choose attractive urban locations to retain a strong market position as employers.

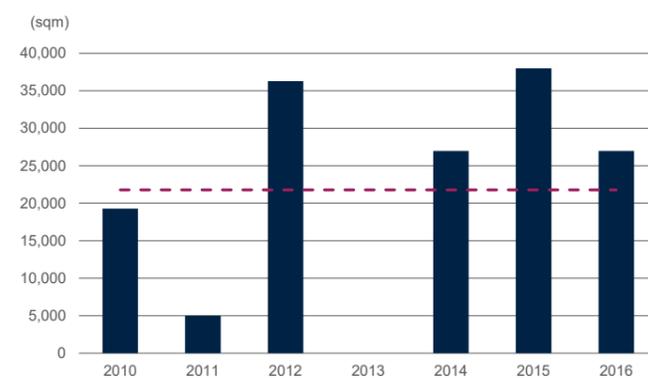
History has shown that a sustainable urban development with a balanced mixture of office and housing has created attractive areas for companies to locate and for employees to work and live. Kista has already gone from a solely industrial and office district to a mixed area with housing and developed public areas and infrastructure. The attractiveness of Kista will continue to strengthen since there are several ongoing projects in housing, hotels, schools, transportation and public areas, and the vision is to make Kista an even more attractive and vibrant area to live and work.

GRAPH 3 **Breakdown of office supply by condition**



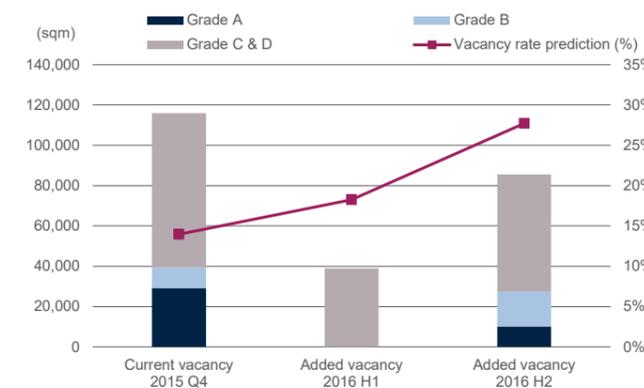
Graph source: Savills

GRAPH 4 **Office Development Completions**



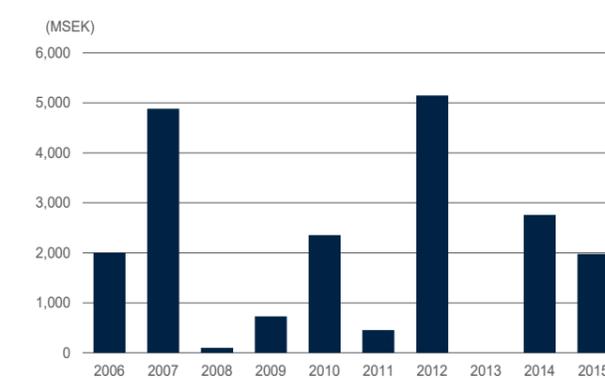
Graph source: Savills

GRAPH 5 **Breakdown of vacancy by condition** The majority of vacancies located in properties of a poor standard



Graph source: Savills

GRAPH 6 **Transaction volumes Kista**



Graph source: Savills

properties. If current rental volumes remain static, this could result in vacancy rates reaching just under 28% by the end of 2016. However, there are ongoing plans to convert the vacant office space into residential and other uses, which could make the area become more vibrant as well as removing unattractive office buildings from the market.

Rental market

During the period following the financial crisis, 2009 to 2012, the rents in Kista had an upward trend before stabilizing. Since 2012 the top rents have remained fairly firm around 2,600 SEK per sqm and modern office rents has also remained at a firm level of approximately 1,800 SEK per sqm. For lower grade properties the rental levels are significantly lower. Currently, due to the high vacancy rate combined with upcoming vacancies, a downward pressure on the rental levels is predicted in the near future, especially for lower grade properties where the supply is higher and the demand is weaker. To retain a competitive position in the office market, many property owners will be faced with the challenge of either considering a conversion of the property into another use or upgrading the property to remain competitive on the rental market.

Investment market

The strong interest and high demand for property investments in Sweden have led to a strong transaction market with transaction volumes well over the historical average and a record breaking transaction pace during 2015 and a record high volume in 2014. The transaction turnover in Kista between 2010 and 2015 amounted

to approximately SEK 13bn. A peak was noted in 2012 when six properties were traded for a total amount of SEK 5.2bn, mainly due to the sale of Kista Galleria with a purchase price of SEK 4.6bn. Yields in general hardened throughout 2015. Yields in Kista have continued in a downward direction since 2010 and by the end of 2015 they reached historically low levels of 5.5% – 6.5%, which can be compared to the Stockholm CBD where yields have reached a level of 4% – 4.75%.

Future developments

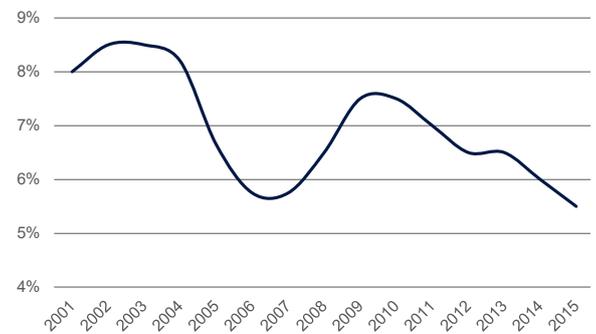
History has shown that areas with a strong integration between businesses, academia and the public sector are successful. This collaboration is called the triple helix model and has been in operation in Kista for the past 30 years and plays an important role for future developments. Kista is also considered an important hub for future development of the Stockholm region and today there are several ongoing planning and construction projects to further develop the area. Vibrant cities have proven to be more successful and attractive for people to work, visit and live. In Kista, numerous housing developments are currently undergoing planning and construction and a total of 3,000 – 4,000 rental apartments, student apartments and co-operative apartments are expected to be completed during the period 2009 – 2020. Other developments such as hotels, schools, pedestrian and cycle paths, commercial streets and meeting places will also be developed to meet the needs of the inhabitants of Kista.

OUTLOOK

The attractiveness of Kista

- The attractiveness of Kista will continue to strengthen since there are several ongoing projects in housing, hotels, schools, transportation and public areas and the vision is to make Kista an even more attractive and vibrant area to live and work.
- It is likely that some existing office space of low standard will be converted into housing and other uses, which could make the area more vibrant and to reduce the stock of unattractive premises.
- Yields currently stand at historically low levels and are expected to remain firm in the near future.
- Currently, due to the high vacancy rate combined with coming vacancies, a downward pressure on the rental levels is predicted in the near future, especially for lower grade properties where the supply is higher.

GRAPH 7 Prime Yield Kista



Graph source: Savills

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