THE FULL SERVICE PROPERTY HOUSE
IN NORTHERN EUROPE

NEWSEC PROPERTY OUTLOOK AUTUMN 2013

NEWSEC

SWEDEN | FINLAND | NORWAY | DENMARK | ESTONIA | LATVIA | LITHUANIA

CONTENTS

Editor: Arvid Lindqvist, Newsec, Box 7795, SE-103 96 Stockholm, Sweden. Phone + 46 8 454 40 00, www.newsec.se.

Design production: Caroline Torstenson, Marketing Coordinator Newsec Sweden.

EXECUTIVE SUMMARY

Arvid Lindqvist
Chief Economist
arvid.lindqvist@newsec.se

The Nordic property market is in the middle of a market shift. High-quality properties outside the prime locations are attractively priced, and properties in these segments will be the winners in coming years. Higher interest-rates and improving return on alternative investments will make property lose its unique ability to produce a real return. However, Nordic prime property will absorb increasing interest rates well and is expected to continue to provide attractive returns.

FOCUS IS SHIFTING TOWARDS THE NON-PRIME END OF THE MARKET

In previous editions of Newsec Property Outlook we have pointed out that a global recovery will have a notable impact on the Northern European property market. That recovery is now here and the property market is in the middle of a market shift whereby yields on properties just outside prime locations or in good suburbs are closing in on the yields of the prime end of the market. Banks are increasingly interested in financing new property deals, and well-established property investors now have a variety of financing options. As a result investors' access to financing has improved and interest-rate margins have come down. So far in 2013 there have been few transactions in the absolute prime segments; instead, the segments with most activity have been offices in inner-city and prime suburban locations, as well as residential properties in suburbs and regional cities. This trend is expected to pick up speed during the second half of 2013 and to strengthen further in 2014-2015 – and it will be these segments that show the strongest return on the Northern European property market in coming years.

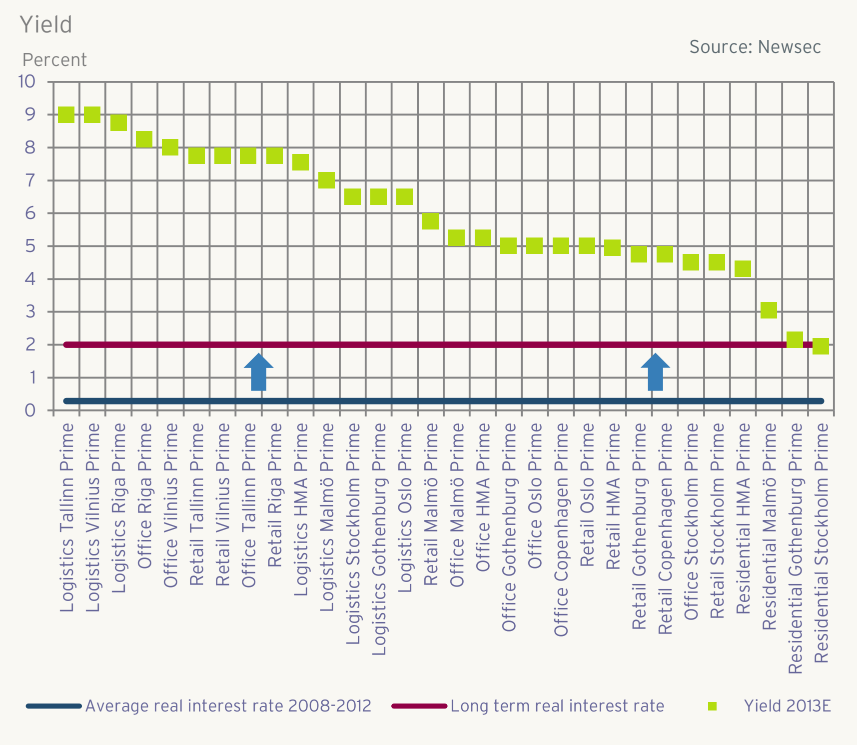
DOES THE ECONOMIC RECOVERY HAVE A FIRM FOOTING?

After five years of weak growth the developed world is finally starting to show signs of recovery – mainly led by the US – even though growth is still fragile and unemployment is at historically high levels. The Nordic region's economic growth is resilient, and domestic demand has been an important growth engine at times when export demand has been weak. However, sentiment in export markets has improved markedly during 2013 and net exports are expected to make a positive contribution to GDP from 2014 onwards.

This will generate a stable rise in both employment and consumption, and thereby stable cash flows for well-located properties of high quality. Although the Federal Reserve is expected to start tapering its purchasing of assets during the autumn, the monetary policies of the world's main central banks are expected to remain accommodative for another few years, as growth rates improve and inflation slowly increases. The US and the emerging countries, which together account for around 60% of the world economy, will be the global growth engine of the next few years, while the euro zone, which represents only something over 15%, is expected to have much slower growth. According to Newsec's main macroeconomic scenario the world economy will not become stuck in an extended period of stagnation – rather, as history has shown several times before, the dynamism of the world economy often makes growth rebound faster than anticipated.

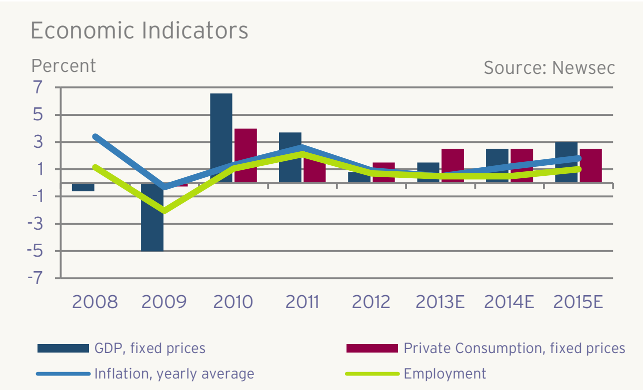
HOW WILL NORDIC PRIME PROPERTY MANAGE THE SHIFT TO HIGHER INTEREST RATES?

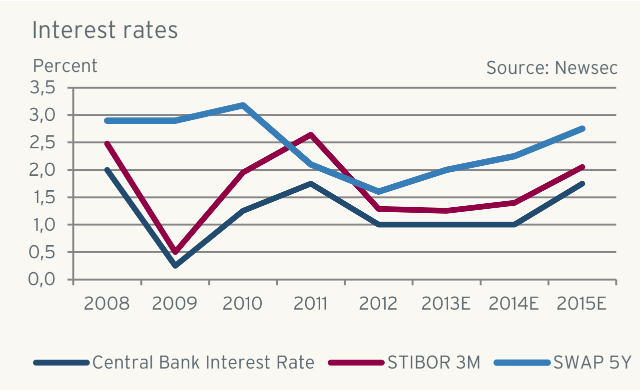
Real interest rates followed a declining trend from the early 1980s to mid-2012, and decreasing yields have been an important driver of stock, bond and property returns alike. However, long-term interest rates have been rising for the past six months, and Nordic five-year government bond yields are expected to maintain an increasing trend – ending up at about 3-4% in 2016-2017. The transformation to a higher-interest-rate environment will have a deep impact on all types of assets – including stocks, bonds and properties. In this process property will lose the unique ability to produce a real return that it has had in recent years – and improving investment alternatives will produce an upward pressure on prime property yields. However, the property market is much more inert than both the bond and stock markets. Despite investors' strong interest in Nordic prime property during recent years, the margins between the real interest rates and prime property yields have remained rather healthy. These margins, in combination with a strong upward trend in rents, will help Nordic prime property to absorb increasing interest rates better than bonds – and thereby continue to provide attractive returns, even if yield compression will no longer be a contributing factor for these segments. All in all, the Northern European economies are expected to show stable growth in both the short and medium term, and high-quality properties outside the prime locations are attractively priced. In this environment the Northern European property market seems an increasingly appealing investment choice – it is just a matter of picking the right properties.



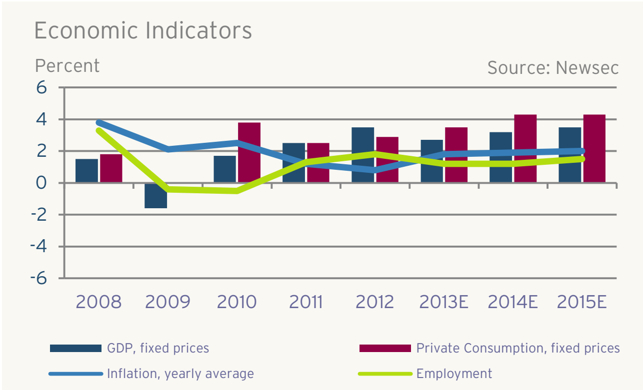
MACROECONOMIC DATA

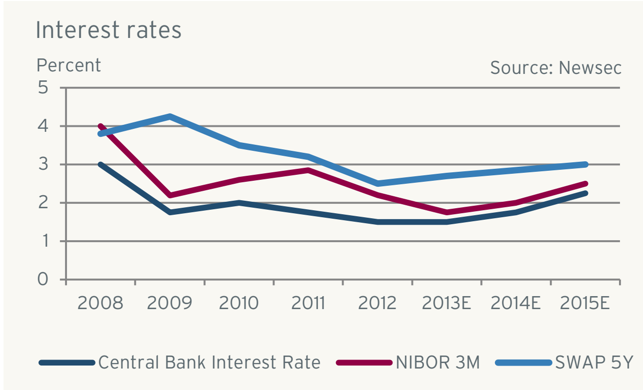
SWEDEN



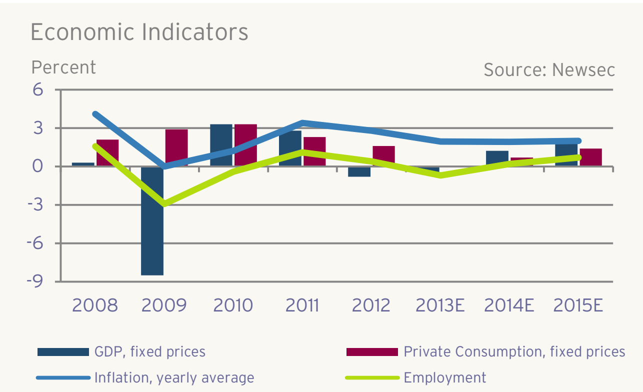


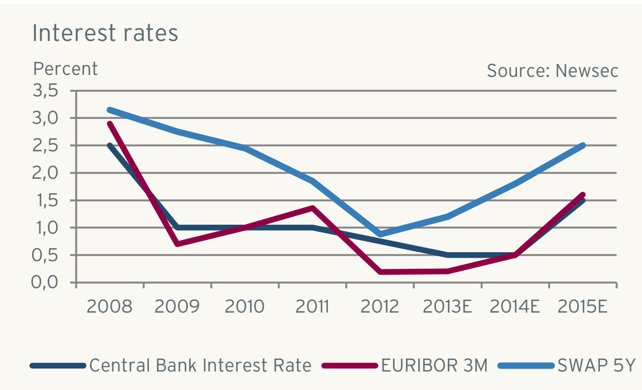
NORWAY



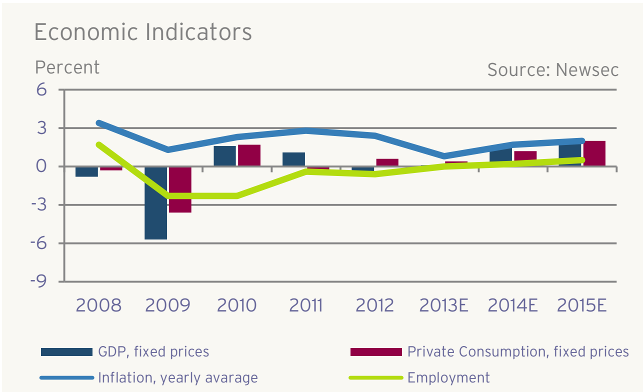


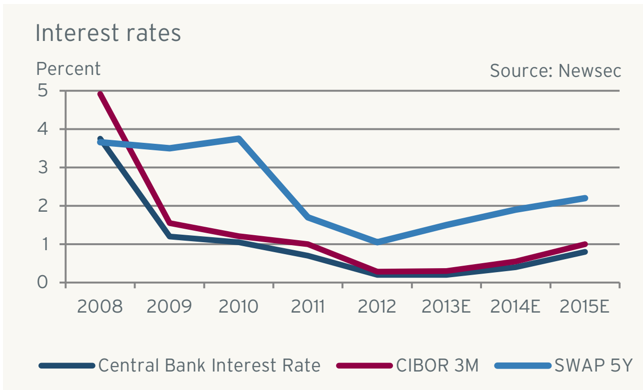
FINLAND



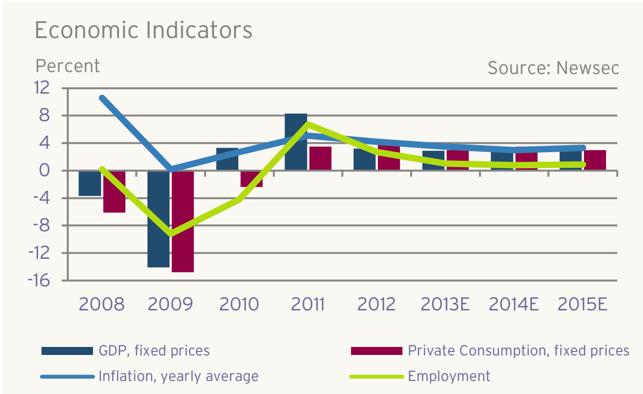


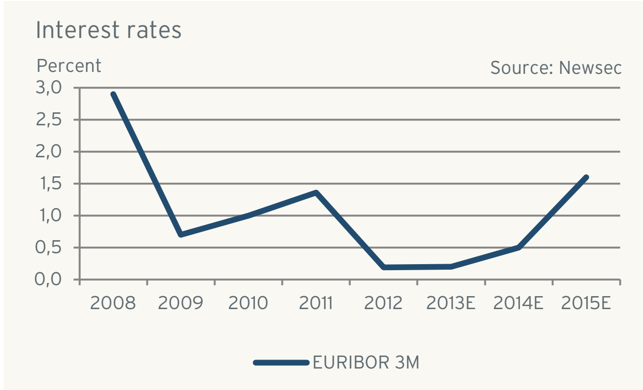
DENMARK



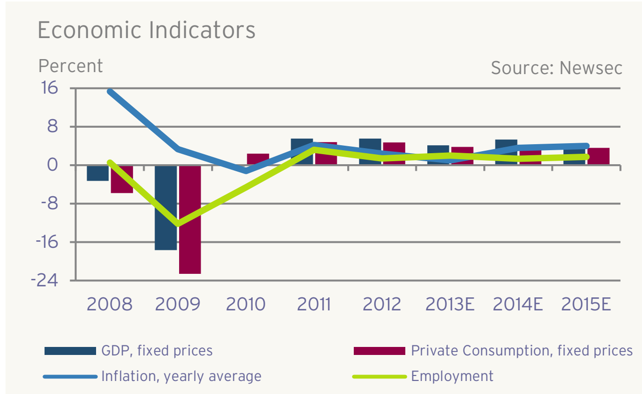


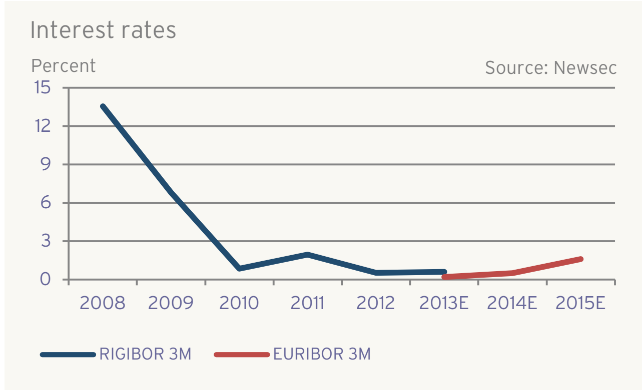
ESTONIA



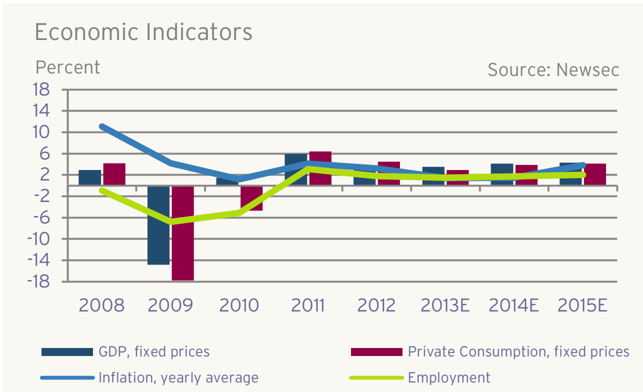


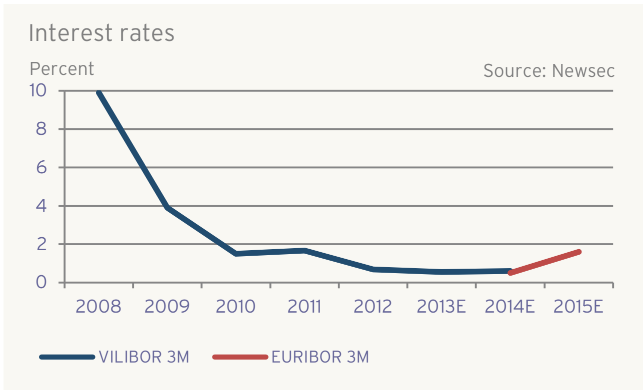
LATVIA



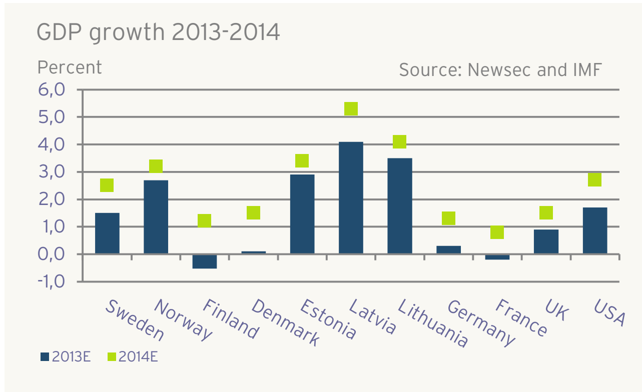


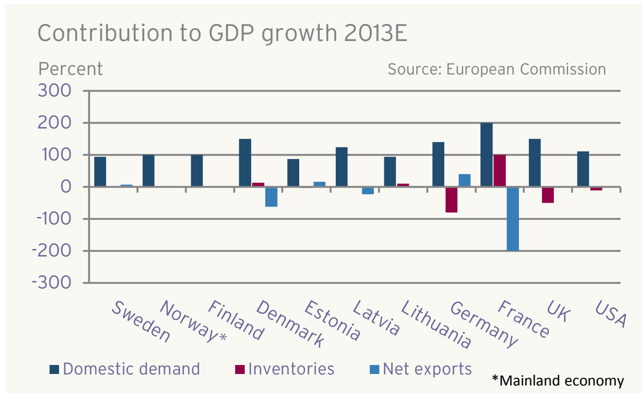
LITHUANIA





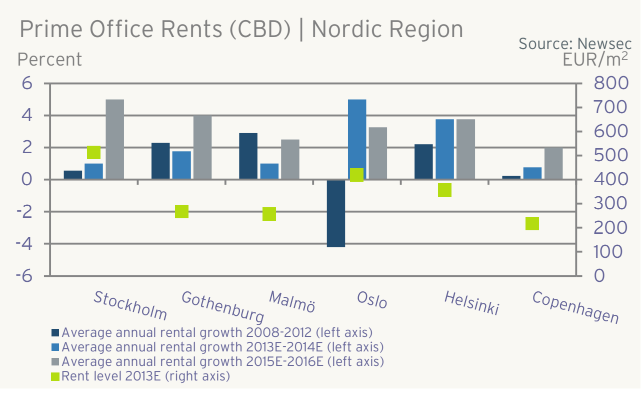
SELECTED COUNTRIES

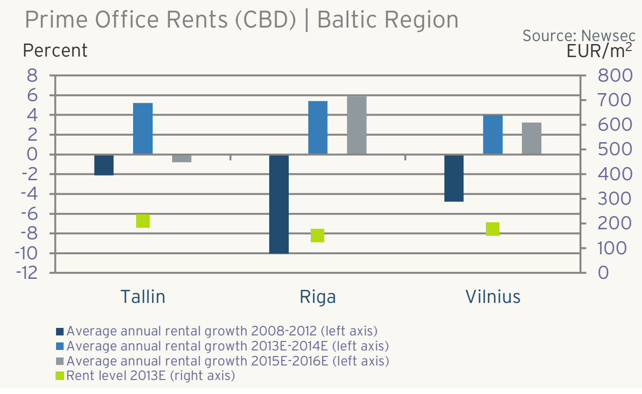




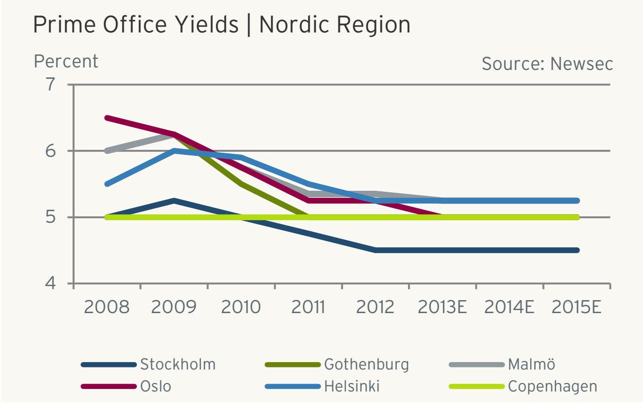
PROPERTY DATA

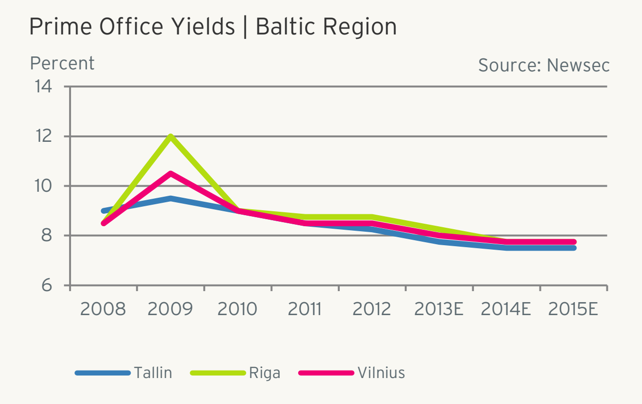
OFFICE RENTS



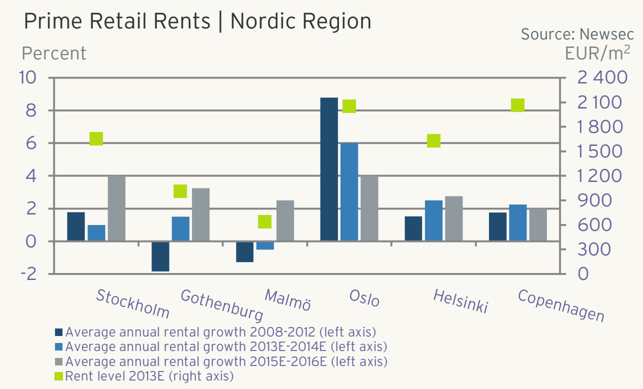


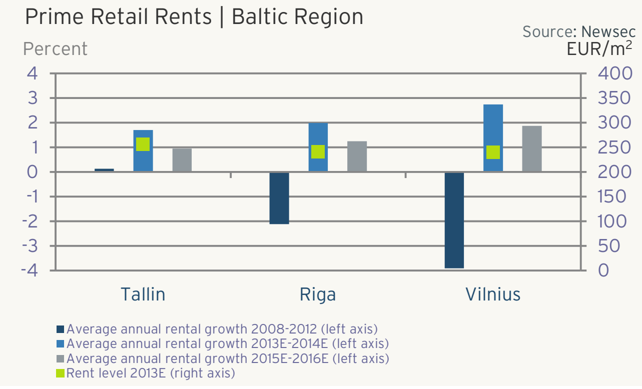
OFFICE YIELDS



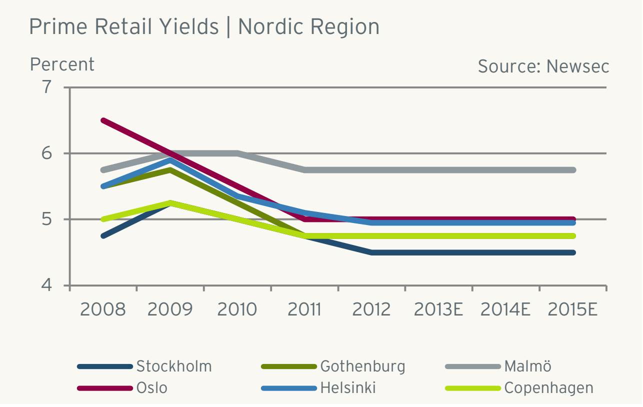


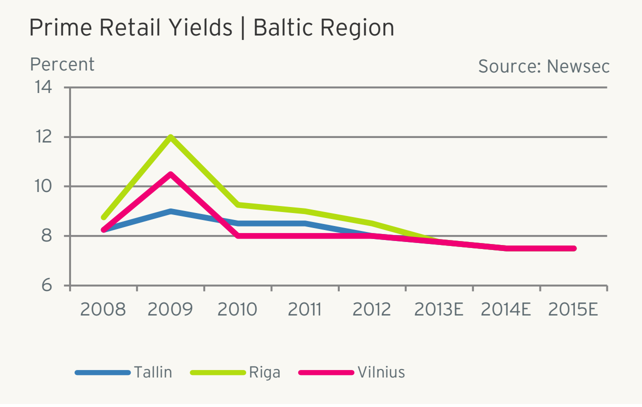
RETAIL RENTS



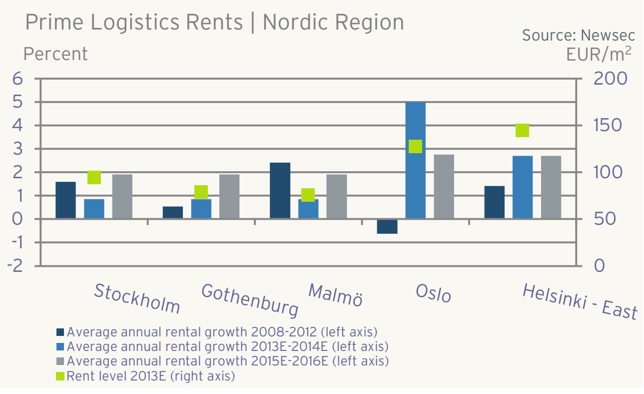


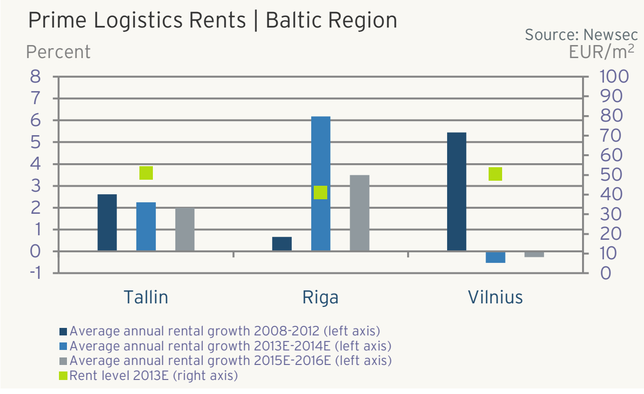
RETAIL YIELDS



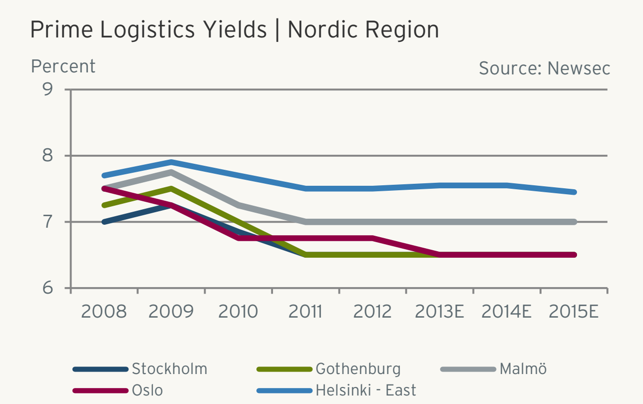


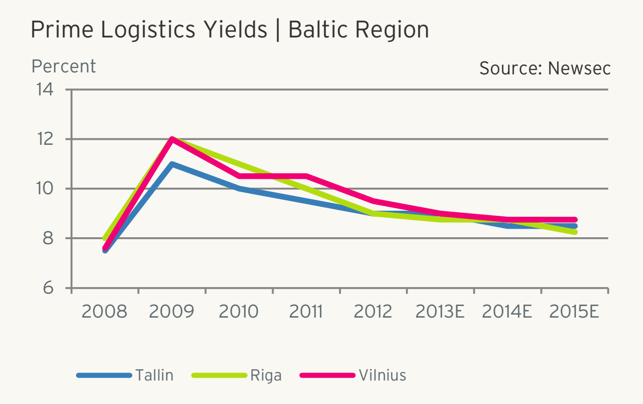
LOGISTICS RENTS



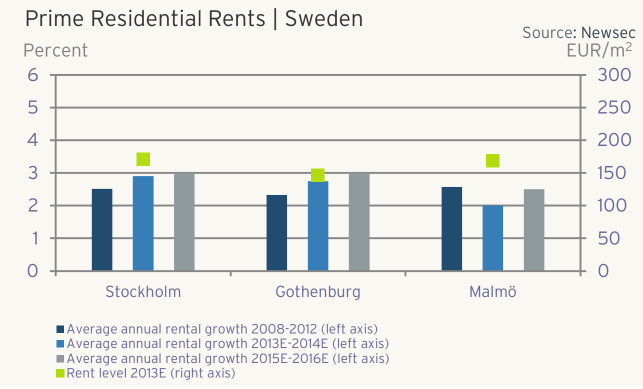


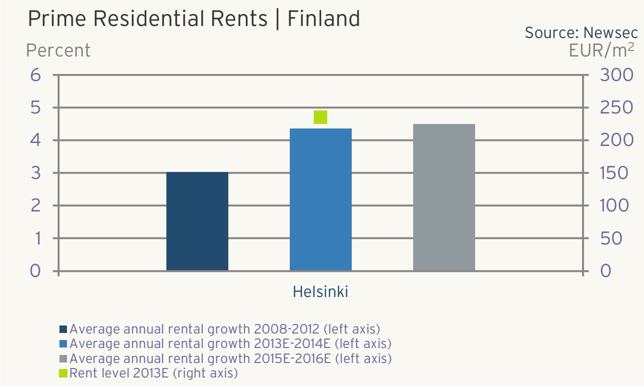
LOGISTICS YIELDS



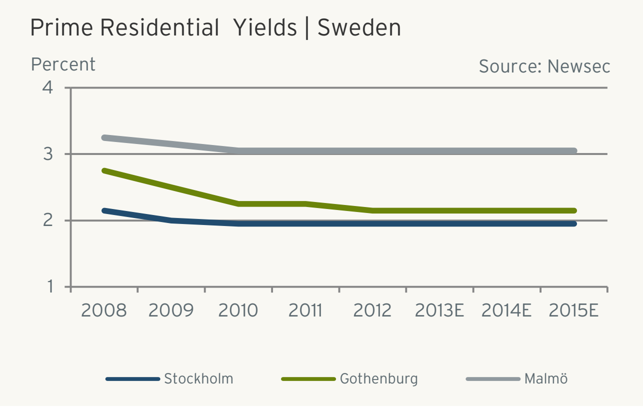


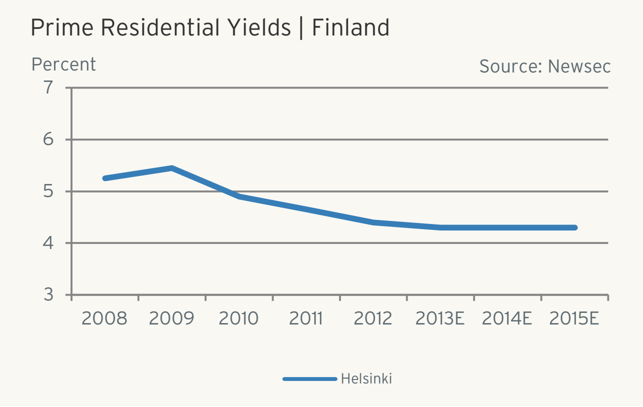
RESIDENTIAL RENTS



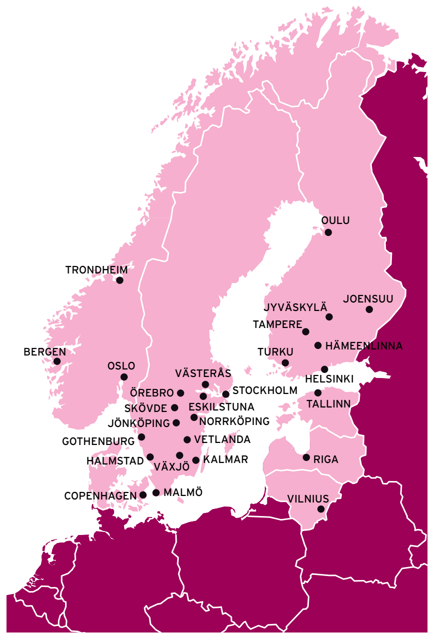


RESIDENTIAL YIELDS





THE NORTHERN EUROPEAN REGION



Newsec's primary markets.

THE WORLD ECONOMY IS SLOWLY RECOVERING

After five years of weak growth the developed world is finally starting to show signs of recovery, even though growth is still fragile and unemployment is at historically high levels. In most of the major developed economies sentiment in the manufacturing sectors has improved, and the euro zone ended 18 months of recession with a small rise in GDP during the second quarter of 2013. Newsec believes that the three factors below will be of great importance for a global recovery, which will start to show clear effects on economic data in 2014.

Rebalanced world economy

One major cause of the financial crisis was the large savings surplus in a number of growth countries, which financed unsustainable consumption in the western world. Since 2007, however, the western world has increased its exports while the growth countries, led by China, have turned towards domestic investment and consumption. This process of rebalancing has also taken place within Europe. As deleverage and structural reforms in the weaker parts of the euro zone continue, households and governments in current-account-surplus countries, including the Nordic economies, have compensated for a weakening export demand through more consumption and investments at home. All in all, current-account differences, both within the developed world and between the emerging countries and the developed economies, are now beginning to even out reasonably well. This is an essential condition for a sustainable global recovery.

American recovery

There are unutilised resources in the American economy, and competition has increased since the financial crisis. Household consumption accounts for around 70% of the US economy, which itself represents one-seventh of the world economy. The private sector has reduced its indebtedness and private house prices have bottomed-out and started to rise, which points towards a stable growth in consumption in the future. The competiveness of the US manufacturing industry has also improved markedly in recent years, and multinational corporations have even started to in-source production back to America from low-cost economies in Asia. Furthermore, new technology has revolutionised the energy sector and significantly reduced gas prices. Although the US is going through a period of significant fiscal consolidation, these underlying factors suggest that the country will strengthen its role as an important global growth-engine during coming years. However, there are still major challenges lying ahead. Cooperation between Democrats and Republicans on a long-term budget plan will be crucial to success.

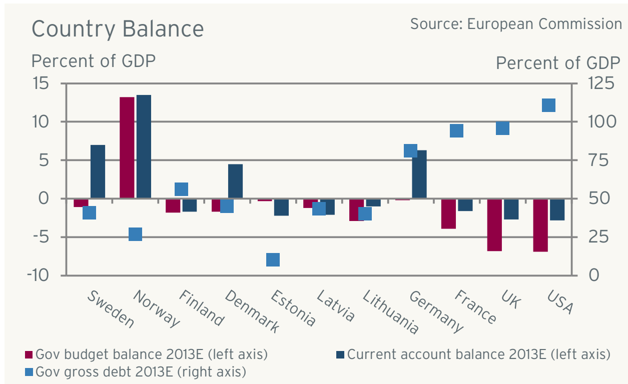
> "The US will strengthen its role as global growth engine during coming years"

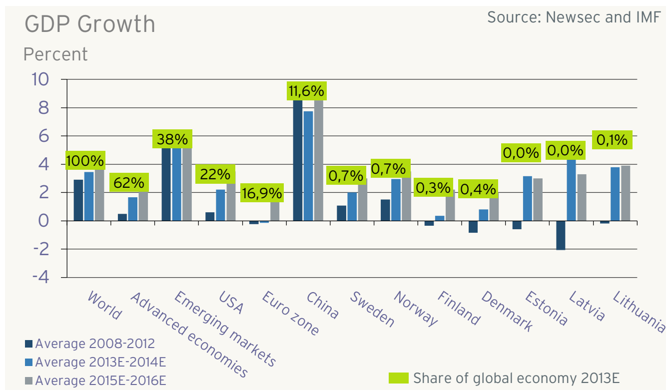
Chinese growth stays on target

Growth in China has slowed significantly in recent years as the politically controlled economy has started a rebalancing process from an economy driven by exports and investment towards one centred on consumption and services. However, since the Communist Party bases its authority on increasing the living standard of the people, it is not thought likely that the new decision-makers, led by Xi Jinping, will allow growth to fall below the target of 7.5%, which is three times the average for the western world. Even though the economy remains unbalanced, inefficient and corrupt, it makes up more than a tenth of the world economy – and will therefore continue to be an important global growth-engine.

HIGHER INTEREST RATES WILL AFFECT GLOBAL ASSET PRICES

Real interest rates followed a declining trend from the early 1980s to mid-2012, and decreasing yields have been an important driver of stock, bond and property prices alike during the past decade. Most western countries are currently going through fiscal consolidation and central banks are playing a crucial role in maintaining growth. Growth and employment have been stimulated through a continued expansionary monetary policy, and the balance sheets of the major central banks have ballooned. Central banks – especially in the US, the UK and Japan – are now paying increasing attention to factors such as capacity utilisation and unemployment as well as their inflation targets. Although the Federal Reserve is expected to start tapering its purchasing of assets during the second half of 2013, its monetary policy is expected to remain expansive for several years. However, several factors are now indicating that we have





“Factors are now indicating that we have passed the interest-rate bottom and are gradually moving towards higher interest rates”

passed the interest-rate bottom and are gradually moving towards higher interest rates. This trend shift is being driven by both cyclical and structural factors.

Cyclical factors

Financial markets have started to anticipate an upcoming recovery and are willing to take on more risk – a trend that is visible in both stock and bond markets all over the developed world. Furthermore, banks (especially in the USA, but also in the Nordic region) have gone a long way in the process of reinforcing their balance sheets and reducing risk in their portfolios, and previous years' excessive demand for safe assets has started to normalise. Speculation about when the Federal Reserve will start to taper its asset purchases resulted in investor nervousness and a sharp increase in long-term interest rates during the summer of 2013. Since then the Reserve has tried to downplay the relevance of the speculation and has stressed that its monetary policy will remain accommodative for several years – until unemployment has been reduced and inflation starts to rise. However, this underlines the fact that interest rates are currently kept artificially low by low repo rates and central-bank asset purchases, and that the future reversal of these policies will have significant effects on the world's financial markets.

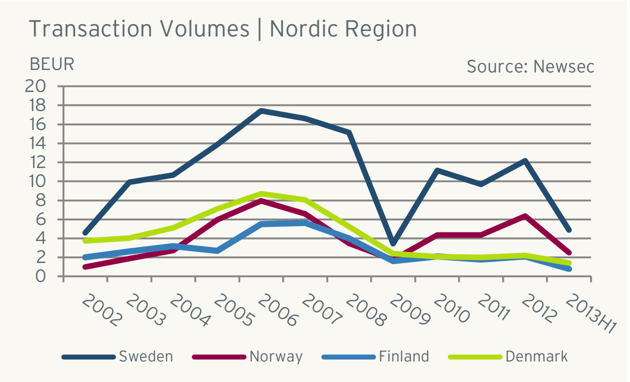
Structural factors

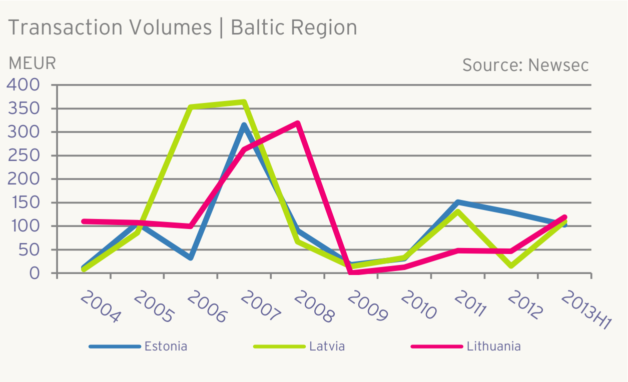
Global investments – and thereby real interest rates – are on the rise. The western economies have underinvested for decades, which is especially obvious in the infrastructure segment. In the future, as their economic structures change – with deleverage and falling current-account deficits – investments will be a way to improve their international competiveness. Simultaneously, declining current-account surpluses in the emerging economies are generating a situation where a larger share of their savings is channelled into much-needed domestic investments instead of into western consumption.

All in all, Newsec's main macroeconomic scenario now indicates that the yield on Nordic five-year government bonds will increase to about 3-4% in 2016-2017. This will impact on all types of asset – including stocks, bonds and property – which are currently priced according to today's historically low interest rates.

STRONG DOMESTIC FUNDAMENTALS MAKE THE NORDIC REGION STAND OUT

The Nordic economies have shown strong development during recent years, and the region seems to stand out from the rest of the developed world with its strong macroeconomic fundamentals. Low sovereign debts, transparent economies, a well consolidated banking system (except in Denmark) and consumers with sound personal finances produce a combination of stability and growth potentialities. In addition, the Nordic property market is highly liquid in a European perspective, and in recent years has accounted for about 20% of the total European property turnover, a high level relative to the region's population which is only just over 5% of the total EU population. Norway has its buoyant oil and gas sector while Sweden has a competitive

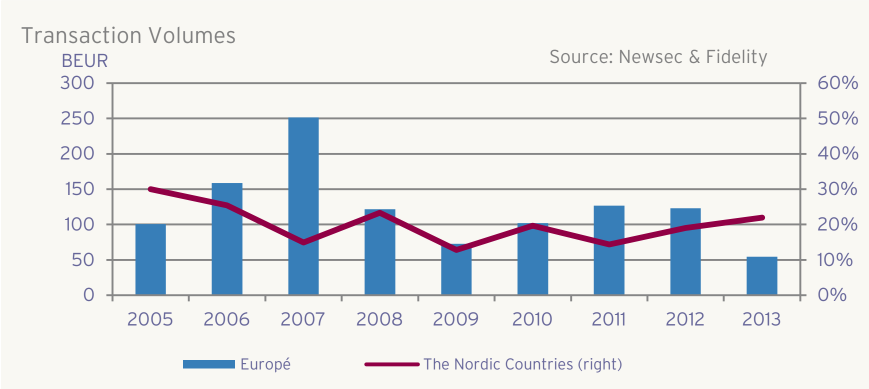


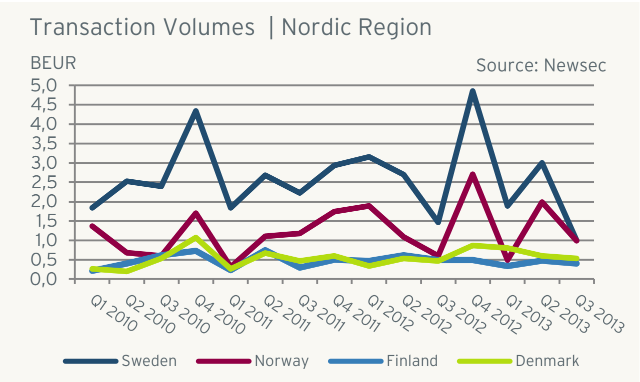


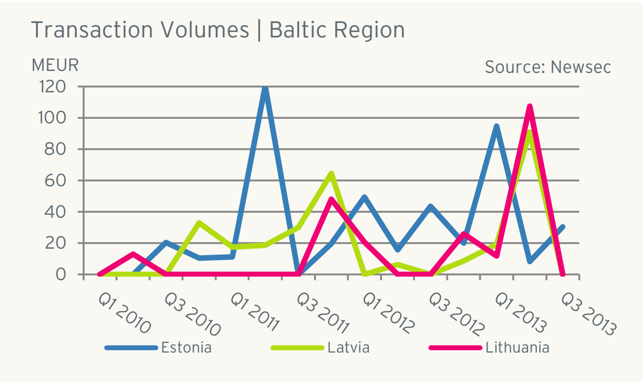
“The Nordic property market is highly liquid in a European perspective”

export industry focusing on investment and on input goods such as components and raw materials. Norway, Sweden and Denmark all have large current-account surpluses in the range 5-15% of GDP, while Finland's balance during recent years has moved from strongly positive to slightly negative. Although Finland has a large export industry, growth is hampered by structural difficulties, especially in the large telecommunications, shipbuilding and forestry sectors. Denmark has a relatively non-cyclical export industry but the country has suffered from slumping house prices and problems in the banking sector since 2008, and these are still restraining private consumption.

The Nordic region's economic growth is resilient, and domestic demand has been an important growth engine when export demand has been weak. The main factor that adds insecurity to the Nordic economies is their export-dependence – around half the Nordic GDP consists of exports, of which a large proportion goes to the EU. However, sentiment in export markets has improved markedly during 2013 and net exports are expected to make a positive contribution to GDP from 2014 onwards. This will generate a stable rise in both employment and consumption, and thereby stable cash flows for well-located properties of high quality.







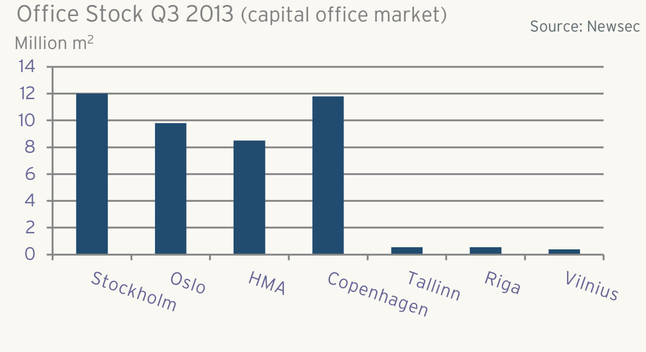
SWEDEN - INCREASING INTEREST IN RESIDENTIAL PROPERTIES

The investment market
The Swedish property markets started 2013 fairly cautiously. The first few months saw fewer deals and a lower transaction volume than in 2012. But the trend changed to a strong recovery before the half year ended and June alone produced SEK 16.5 billion of transaction value. The total volume for the first half year ended up at SEK 43 billion, which is SEK 9 billion below last year's figure. The second half year then made an exceptionally strong start with a handful of big deals already signed.

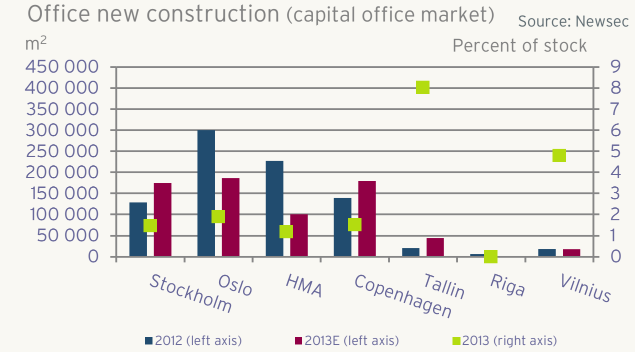
The vast majority of transactions have been made by financially strong companies with good credit access. Institutions and private real estate companies continue to dominate the market. Institutions are the largest type of investor with around 30% of direct investments as well as a significant part of indirect investments made via property funds. The transaction activity for office and retail properties in prime locations has declined significantly in 2013. Instead there has been increased investor interest in segments which provide a relatively good yield at an acceptable risk. Within this category during the past year there have been a high proportion of transactions in residential properties in growth cities; properties with a high proportion of public-sector tenants; logistics/warehouse properties in good locations; and retail properties with a high proportion of grocery business. The single segment that stands out most strongly is residential properties, which have achieved a record high market share of almost 40% in 2013 so far. Swedish institutions have increased their residential holdings substantially, which has contributed to boosting this segment's share of the transaction volume. Office properties are still the second-largest segment with about a quarter of the transaction volume.

Foreign investors have reduced their presence in Sweden over a number of years, and the foreign share in the first half of 2013 totalled just 9%, compared with 19% for the full year 2012. The proportion rose slightly in the second quarter of 2013 as a result of Rockspring's acquisition of Lidingö Centrum from Vasakronan for SEK 771 million. In July Corpus Sireo, a German property fund, invested about SEK 500 million in two office properties in Malmö CBD. The Swedish krona has appreciated since 2012, when it broke its previously tight positive correlation with overall economic sentiment in the euro zone and acquired something of a safe-haven status. The strong currency is one important factor that has hampered foreign investments on the property market, and it is expected to continue to limit activity during the second half of 2013.Good banking relationships and access to the corporate-bond market have been crucial for obtaining financing. Improved funding opportunities and continuing low interest rates ensure that the real estate market continues to attract capital. Until late 2012 the effects of the extremely low interest rates was mostly noticed on office and residential properties in prime locations, where the yields are at historically low levels.

Office Stock Q3 2013 (capital office market)



Office new construction (capital office market)



> "The focus on the property market is shifting towards higher-yielding segments"

In 2013 however it is thought that prime yields have bottomed out, and the focus on the property market is shifting towards higher-yielding segments. This includes inner-city and prime suburban locations in the major cities as well as secondary locations in the major cities and well-located properties in growth-cities. The present signs of a slow economic recovery indicate that the property market will remain liquid in 2013 and achieve a transaction outcome similar to 2012. As lending improves, higher acceptance of risk among investors works in favour of sectors that have already gained market share.

The key market trends can be summarised as follows:

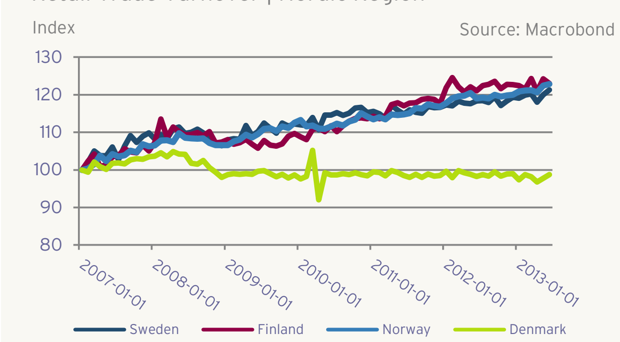
1. Increased activity in higher yield segments
2. Low foreign presence
3. Continued high interest in residential properties, especially from intuitions

The office market
Newsec estimates the total office stock in Greater Stockholm at approximately 12.0 million m². Stockholm CBD is considered to be the most attractive office area and its stock totals about 1.9 million m². Stockholm Inner city, excluding the CBD, has an office stock of about 4.3 million m². The main office areas in Greater Stockholm are found in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby.

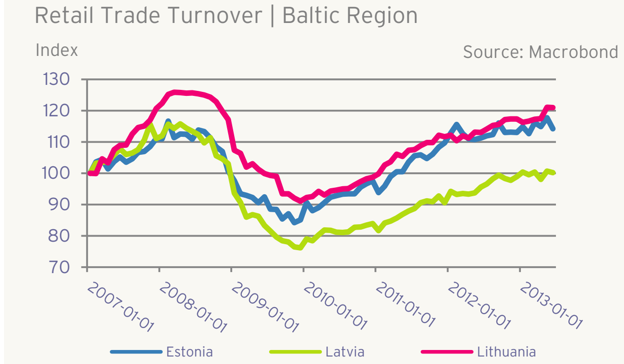
Construction of new office premises in Stockholm has been limited in the past decade. On average the stock has increased by about 1% a year. In 2012 nearly 130,000 m² of office space was completed, almost all of which is let. Ongoing office projects with expected completion during 2013 total just over 175,000 m². Although market sentiment has begun to improve during 2013, there are few project-starts this year. The amount of newly produced office space coming onto the market in 2014 will be relatively low, but probably not as low as the 2011 figure of 45,000 m². The small addition of newly produced office space in 2011 was due to the negative economic trend in 2008 and 2009. Only a few new-construction projects that were initiated speculatively are currently being built. The property sector's impact on the environment is becoming increasingly important for both investors and tenants, and most of the new construction projects in coming years are expected to be environmetally certified.

In step with a number of large companies moving from office properties in the outer suburbs to established office areas in the inner suburbs or the Inner City, the number of conversion projects has increased. Notable among these conversion projects are Vattenfall's former headquarters in Råcksta, which the company left in the autumn of 2012 to move to Arenastaden, and Ericsson's two former office properties in Älvsjö and on Telefonplan which it left to move to Kista.

Retail Trade Turnover | Nordic Region



Retail Trade Turnover | Baltic Region



> "Most of the new construction projects in coming years are expected to be environmentally certified"

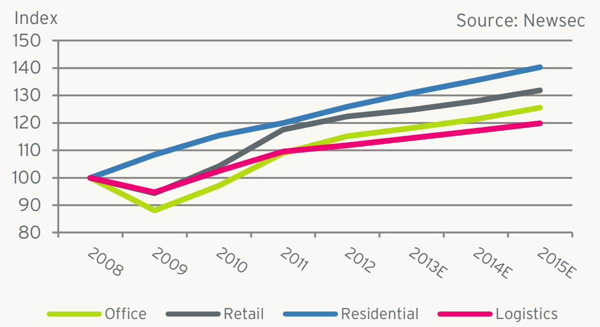
There has recently been growing focus on the costs of premises leased by government agencies and departments and several agencies and departments have already announced relocations.

Activity on the Stockholm rental market has fallen because of an extended period of general economic anxiety among market participants. But attractive premises in Inner City locations in general and in the CBD in particular remain in short supply and disappear rapidly from the market. In less attractive submarkets and for office premises in unmodernised properties, rent discounts and contributions towards relocation costs are becoming ever more common during renegotiation. The rent level in modern, space-efficient office properties in Stockholm CBD remained stable at a figure of SEK 4,500 per m² during the second quarter, and Newsec estimates that the market rent will continue at this level up to year-end 2013. This is the result of psychological effects caused mainly by general economic anxiety and worries about new vacancies in office premises in Stockholm CBD when several large companies leave the submarket in the very near future.

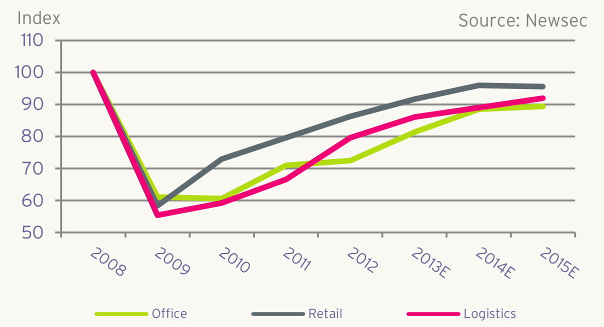
The vacancy situation in Stockholm CBD is very similar to that which existed at the end of the 1990s when pressure on the rental market was very high. More than anything else, it is employment growth within the office-dependent service sector in Stockholm, in combination with the shortage of new office building pro-jects in the CBD, which has resulted in today's low vacancy rate of about 4%. A strong office market in the CBD, with high rents and low vacancy levels, is expected to benefit districts near the City that currently have higher vacancies and a number of new-construction projects, such as Norrtull/Norra Station and Västra Kungsholmen/Stadshagen.

Several major banks and government authorities have decided to relocate their headquarters in the Stockholm area. This means they will either greatly reduce the space they lease in Stockholm CBD or will leave the district entirely and set up operations instead in the inner suburbs. Over a period of several years from the beginning of 2014, around 125,000 m² of office space will become empty, representing 6-7% of the office stock in the CBD. However, SEB has cancelled its plan to move from premises of around 40,000 m² and instead will stay put in a reduced space. The properties with upcoming vacancies will become empty at intervals and will be rebuilt and upgraded before they return to the market. In contrast, plans for new-construction projects in Stockholm CBD that might be able to compete with these future rebuilding projects are conspicuous by their absence. Space-efficiency is one of the key features sought by tenants and is often the reason for relocations. The cost per employee is what matters most, which is why landlords can charge a higher rent per square metre for space-efficient premises.

Property Capital Growth Index | Nordic Region



Property Capital Growth Index | Baltic Region



> "The ongoing urbanisation will result in a growing urban population that also consumes more per capita"

The retail market

Retail trade in Sweden is showing positive growth. Swedish households are well consolidated financially, and the sluggish global economy will continue to make domestic demand an important growth engine for the Nordic region in coming years. During the second quarter private consumption increased by 1.8% compared with last year. Continuously low interest rates and a stable labour market with increasing wages are expected to continue to boost household consumption during the rest of the year and in 2014. For the same reasons, households' real disposable incomes are expected to go on rising at about 3% per year in 2013 and 2014. Consumer confidence has increased during the first seven months of this year and is positive, although it has still not regained pre-crisis levels.

The household saving ratio (as a percentage of disposable income) has historically been high in Sweden and is expected to remain at around 10%. Retail turnover has been resilient, and at fixed prices retail trade in the period January to June 2013 increased by 1.6% compared with the same period last year. Growth is forecast to be about 2% for the full year 2013 and 2.5% in 2014.

Backed by the country's ongoing urbanisation this will result in a growing urban population that also consumes more per capita. This is creating the fundamentals for a steadily increasing demand during the next few years. However, competition is fierce in many municipalities – both between different types of shopping destinations and from the growth in internet shopping- which makes factors like the location and quality of premises increasingly important.The most attractive shopping centres in Sweden today from an investment point of view are those owned by large national and international companies and institutional companies specialising in this field.

2012 was characterised by relatively small business deals in the retail segment. Only around 12% of the volume involved retail properties, which indicates some uncertainty in the market. This year has seen a couple of big deals in the Stockholm area but the retail segment remains relatively quiet. In Stockholm CBD the well-known shopping mall PUB was sold by Atrium Ljungberg to Axfast during the summer of 2013. The seller has owned the property for a long time but is now focusing on larger retail areas and not department stores, while the buyer is continuing to increase its property holdings in central Stockholm. The deal was based on a property value of SEK 980 million, corresponding to almost SEK 60,000 per m².

Also during the summer a forward funding deal was made when Cordea Savills bought the Barkarby Gate retail project. The intention is to develop retail properties in Barkarbystaden, which is one of Stockholm's largest expansion areas. During the year the suburban shopping centres in Lidingö and Vallentuna also got new owners. Prices for prime properties prices are stable. However, the spread of price levels between different types of retail property has increased and factors like location, competition, tenants and lease-structure have a strong effect on prices.

NORWAY - STRONG DEVELOPMENT ON THE PROPERTY MARKET

The investment market
A weak global economy and the Norwegian Central Bank's fears of slowdown in the national economy have not dampened investment demand in Norway. Transactions in commercial real estate totalled NOK 51 billion in 2012, and a turnover of NOK 40-45 billion is likely in 2013. A strong Norwegian economy and low interest rates have made the property market, both commercial and residential, very successful. Newsec has recently noticed increasing interest in centrally located office properties and we have lowered our estimate of prime yield to 5%.

Interest in property developments with opportunities for conversion remains high. There are some players buying conversion projects who have no previous experience in the property field. Newsec views this as a sign that the market is approaching a peak, and we are afraid that some people are now paying excessive prices in the belief that house prices will continue to rise going forward. For the first time in almost two years there has been an improvement in the financing market. It is the industrial players who have benefited from a slight improvement in lending margins. In the bond market the cost of borrowing has dropped significantly for solid players, but the market impact on customers has not yet been great despite the fact that banks are lending at up to 100 points lower than they were less than a year ago. It seems that banks are distinguishing more than before between good and bad properties and borrowers. This supports the growing yield spread we have seen in commercial properties. As in 2012, the current market is characterised by increased selectivity and high requirements for quality among investors. We are seeing this especially in central Oslo where there is very high demand and few available objects. Private and public property companies, real estate funds, syndicates and foreign investors are all turning their eyes to the centre of Oslo to an even greater extent than before. As a result of excess demand, we have observed that the rate of return for the best properties is lower than before, while increased yields are associated with secondary locations and older properties. Furthermore, residential conversion projects are still quite common and we observe that the new financial players are buying such projects in anticipation of further house-price inflation.

Syndicates are as usual active in the market and searching for new investments. However, it is noticeable that the traditional 'mass distribution market' among the syndicates has been reduced significantly in favour of increased focus on club deals and targeted investments on behalf of a small number of professional property investors. This reflects in many ways the investors' overall selective attitude and increased requirements for risk-adjusted returns, and also contributes to increasing competition between the syndicates. Of the transactions completed in the last quarter, Oslo Pension Insurance's acquisition of a large warehouse/industrial portfolio of seven properties in Trondheim is worth mentioning. The portfolio, sold for a total of NOK 928 million, is priced at a direct yield of about 7.2%.

The key market trends can be summarised as follows:

1. The prime yield in central Oslo lowered to 5.0%
2. Increased rates of return for properties in secondary locations
3. Continued high interest in development and residential conversion

The office market
The total office stock in Oslo is approximately 9.8 million m². The Oslo CBD is relatively small compared to the other Nordic countries and the most attractive and highest-priced office locations are in the Vika and Aker Brygge areas. However, Bjørvika and the area around the Central Station will soon form another part of the CBD when they are developed. The other major submarkets are Skøyen, Lysaker, Fornebu, Nydalen, Helsfyr and Bryn, all located outside the city centre.

Fornebuporten, building 1 is one of the new projects from Aker, a Norwegian oil service company that has a history of building its own headquarters then doing sale-leasebacks. The project at Fornebu began in March and when finished in 2015 will be the new headquarters for Kværner, one of Aker's subsidiaries. Kværner has taken about 8,000 m²,

"Today more than one third of all Norwegian retail trade take place in shopping centres"

leaving 18,000 m² of offices vacant. The remaining areas will be used for retail. Another building, number 2, is planned with an additional 25,000 m². At Philip Pedersvensvei 3-7 (also called Lysaker Polaris) the developer NCC has struggled for years to find a tenant, but found one in May. Technip will lease 13,500 m², with an option to lease the remaining 5,000 m². The rent level is around NOK 2,200 per m².

At Haslevangen 16 in Økern the developer Höegh is planning to build over 400 apartments and three large office buildings, two of which are already being let. The latest letting is to Bymiljøetaten, a municipal tenant, which is taking 9,000 m² of the 13,000 m² building.

Newsec assessed vacancy in Greater Oslo in early May 2013. The overall vacancy rate in Greater Oslo is now 7.9%, unchanged from the previous quarter. The expected fall in vacancy is still on hold, but from all appearances vacancy will fall quickly during the second half of 2013 and the start of 2014.

Newsec's vacancy forecast is based on known building-starts over the next few years, what is likely to be built, what is being converted from offices to residential and hotel use, and Newsec's expectations of absorption. In 2013, 186,000 m² of offices will be completed, almost all of which will be absorbed. Some premises are available in the buildings Østensjøveien 27, Ryensvingen 5-7 and Hotell Asker Panorama, but they total less than 10,000 m². In 2014, the volume will fall to 61,500 m² and so far we know of about 106,500 m² in 2015. This figure is expected to rise to a final total of about 150,000 m².

Major conversion projects at Københavngata 10, Middelthunsgate 17, Statnett in Huseby and Hotell Fernanda Nissens gate 3 will result in about 150,000 m² being converted from office to residential and hotel space in the next three years. Together with the normal absorption, this suggests that vacancy will fall significantly in the future.

The retail market
Sales in department stores during the first five months of this year increased by 2.7% compared to last year. Adjusted for trading days, there has been a growth of 4.4%. Adjustments for additions and modifications then reduce growth to 1.7%. If we ignore the difference in trading days, the sales increase in the first five months of this year was the weakest since 2009, when sales in the first five months rose by 2.6%. In the first four months of 2013, sales in department stores increased by 2.1%, while total retail sales excluding sales of motor vehicles and sales at petrol stations grew by 0.9%. In twenty years, the total floor space in Norwegian shopping centres has quadrupled, and today more than one third of all Norwegian retail trade takes place in shopping centres. Hence Norway has one of the largest per capita levels of retail space in the world. The level of new developments has fallen lately as a consequence of the relatively saturated market.

The current trend is that the largest centres are becoming larger still. Lagunen, which is already Bergen's main shopping centre, intends to more-than-double its area. Construction will probably start next year and when the development is completed, the centre will have 80,000 m² of new retail area. In other developments in the Bergen area, Sartor plans to build an additional 41,000 m² and Åsane Storsenter has approved plans for a 40,000 m² expansion.

FINLAND - RENTAL GROWTH BUT BIG AREA DIFFERENCES

The investment market
At the beginning of 2013 Finland was again given an AAA credit rating as a national economy by all credit rating agencies in Europe. Of the other euro zone countries, only Luxembourg, Germany and the Netherlands have been given the highest possible credit rating from all three major credit rating agencies. According to Standard & Poor's, the outlook is now stable in Finland, whereas the previous year it had considered the outlook negative.

The recent sovereign-debt crisis was an unwelcome development on the Finnish transaction market, which was still struggling with transaction volumes well below those of the years before the first financial crises. Cash flows for core assets are strong, and the transaction market has been dominated by financially strong investors such as institutions and well-consolidated property companies.

The market in Finland was dominated by domestic and Swedish and German investors during the first half of 2013. Residential portfolios, offices and industrial premises have been the main focus for domestic Finnish investors. In the first quarter the transaction market was expected to be very active due to an increase in Transfer Tax on 1 March 2013. In the event, however, the transaction volume during the first half of 2013 dropped to about EUR 820 million, which was a decrease of EUR 260 million compared to the same period in 2012. Uncertainty particularly in Europe combined with a tighter financial market continues to confine the liquidity of property sales in Finland almost exclusively to good central properties. The total volume in 2013 will be lower than in 2012. The optimistic scenario is that the total transaction volume may reach the EUR 2 billion landmark, but in reality the volume will probably be lower.

Throughout 2012 international investors have been active on the Finnish property market. However, the difficulty of obtaining finance has made it hard to proceed with investments. The interest is still focused on core buildings in prime areas such as the Helsinki CBD. However, CBD transactions have remained rare due to lack of supply. Low interest rates have driven the returns on real estate investments up to a competitive level and thus the real estate market has recovered slightly.

The key market trends can be summarised as follows:

1. Cautious transaction volume
2. Still foreign interest in prime buildings
3. Projects soon to be finished in the central area

The office market
The total office stock in the six largest Finnish cities (in order, Helsinki, Espoo, Tampere, Vantaa, Oulu and Turku) is about 11.8 million m². About 8.5 million m², or 70% of the total stock, is located in the Helsinki Metropolitan Area (HMA) which is the commercial centre of Finland. Of the HMA office stock, approximately 70% is located in Helsinki itself and the remainder in Espoo and Vantaa. The CBD is the most attractive office submarket and the other prime submarkets are Ruoholahti and Sörnäinen in Helsinki, Keilaniemi and Leppävaara in Espoo, and Aviapolis Business Park in Vantaa.

All in all, the demand for prime office premises is high. The difficulty of financing together with national economic indicator forecasts will probably keep demand high for properties in Helsinki CBD, and this in turn will maintain a price level equivalent to the record years 2006–2007. International investors still consider Finland a safe haven, and German investors in particular have been very interested in the CBD property market segment. Property sales in late 2012 also indicate that the demand for good Core+ properties in the Helsinki Metropolitan Area in general, and the price levels achieved, are both growing. However these sales are hindered by the severe financing situation.

There are several ongoing office projects which could be completed in the years to come. Many developers are awaiting signs of a better economic climate or a specific occupancy rate before they are willing to initiate a project. Nevertheless office stock is still growing in the Helsinki Metropolitan Area. For instance, the environment of Helsinki city centre and its immediate surroundings will change in the near future due to four office buildings being built

> "International investors still consider Finland a safe haven, German investors in particular"

in the Töölönlahti area. One building was finished in 2012, and the other projects are progressing as planned. Three are being built by Etera Mutual Pension Insurance Company and one by UPM. They are being built by construction companies. The major tenants in these buildings will be Alma Media, Ahlstrom, KPMG and Ernst & Young. New office premises are also being built or have been built in Ruskeasuo and Käpylä, and changes will also be seen in the central fringe area of Jätkäsaari.

Space-efficiency is one of the key features sought by tenants and carries a premium rent. There is a stable demand for prime offices in Finland and prime rents are rising slightly. In Helsinki CBD the vacancy rate in the second quarter of 2013 was at a level of about 4.5%. In the short term vacancy is expected to increase slightly because many tenants are moving to the new areas in the CBD, but this change will be only temporary. Rents in central Helsinki have shown real growth and some other areas even more while others have no growth and some even negative growth. However, economic changes and new construction will put pressure on rental development in the near future. Prime office yields have been around 5.2 to 5.5%.

The retail market
The growth in consumption is expected to slow down in 2013 due to increases in VAT and other taxes. This will have some effect on sales of durable goods but the grocery trade is likely to remain stable. Although retail trade turnover dropped somewhat during the first half of 2013, the changes seem to be minor, and we therefore expect the demand for good commercial premises to remain higher than supply and rent levels to increase moderately. This will apply to grocery store properties in particular.

Both domestic and international investors are looking for prime retail assets to acquire. The demand for prime retail properties is boosted by the high proportion of offices in the portfolios of Finnish institutions and by the high vacancy rates in secondary offices in the Helsinki Metropolitan Area. Good location is usually the primary consideration for investors seeking retail targets. However, the supply is very scarce, and during the first half of 2013, only 10% of the total transaction volume consisted of retail deals. In spring 2013, Citycon and the Finnish pension institution Ilmarinen agreed to co-invest in the extension of the IsoKristiina shopping centre in Lappeenranta. At the same time, Citycon sold 50% of the shares in the IsoKristiina centre to Ilmarinen. Also in spring 2013, Newsec acted for the seller, Pharmacy Pension Fund, in the sale of a supermarket retail centre located in the municipality of Tuusula in the Greater Helsinki area. The property was acquired by HOK-Elanto, the local retail cooperative which already operates an S-market supermarket on the site. The property also consists of several smaller retail stores. The total lettable area is approximately 3,700 m².

DENMARK - OPTIMISM IN THE TRANSACTION MARKET

The investment market
The transaction volume for the first six months of 2013 has been relatively high compared to the same period in the previous two years. However this is largely due to one sale – that of the second-largest shopping centre in Denmark, Rosengårdcentret, at a total price close to DKK 3 billion, which will go down in history as the biggest real estate deal in Denmark for a single property. The buyer is the European market leader in the field of inner-city shopping centres, ECE. In general the Danish economy has stagnated. The GDP and the labour market are frozen, and in consequence the primary focus in both the office and retail investment markets is still on prime properties on long leases with strong tenants. The supply of secondary properties is high, but the number of active investors is very low. As a result, the vacancy levels in the retail and office markets are still high. The yield for prime office property in the CBD has remained stable from 2012 to 2013 at 5.0%, while in the secondary CBD segment yield has increased by 25 basis points to 6.0%. Yields for prime and secondary office properties outside the CBD have remained stable at 5.0% and 7.5% respectively from 2012 to 2013. In the retail market a number of international investors have zoomed in on high street investments in Copenhagen. As a result yields are below the 5.0% mark – currently at a level around 4.75%.

The key market trends can be summarised as follows:

1. Continuous focus on prime properties with long leases
2. Growing interest from foreign investors especially on the retail market
3. Properties in secondary locations are still struggling

The office market
After a very long period of slow growth the construction level is starting to increase, especially around Aarhus and Copenhagen where there are a couple of new areas with high development intentions. The economic crisis has forced companies to cut their costs and reconsider how they are organised. Hence many businesses have become aware of the substantial cost-saving potential of area reductions and space utilisation in general. The low interest rate in combination with the increased demand for up-to-date, space-efficient and flexible office premises has led to companies building their own office headquarters. As an example, Ferring Pharmaceuticals has a new base of around 30,000 m² under construction in Scanport, a new business district south of Copenhagen. The project is expected to be completed in 2016. As investors have remained fairly risk-averse and continue to look for low-risk properties, yield and rent levels have remained the same as in the previous couple of quarters. While the prime properties are easily sellable, secondary office properties continue to attract only moderate demand due to widespread risk aversion. This applies in particular to properties in secondary locations outside the Copenhagen CBD and properties with high vacancy rates. The vacancy rate for office properties has had a flat to slightly rising trend in 2013 so far, which is expected to abate gradually in the future if the slow revival of the economy continues.

The retail market
Trends in the retail investment market are highly correlated with overall economic trends. Because of the stagnation of the Danish economy, most activity in the retail market is still concentrated on the high-street market in Copenhagen. In this prime high-street market the occupiers are very keen on their prime location, and this has resulted in an increase in the prime rent level. Retail investment properties in secondary locations are in greater supply, but demand seems slow to adjust since secondary properties are typically more susceptible to cyclic changes in the economy. As consumption levels in Denmark remain low, many small shops in secondary locations are struggling. This means that investors remain hesitant about investing as long as the economy is in deadlock. This undesirable tendency is expected to change in the near future, which several key economic indicators are starting to suggest.

THE BALTIC REGION - MORE ACTIVITY ANNOUNCED

Economic development
The year 2013 started with lots of positivity. Although expectations were high they continued to be fulfilled and sometimes even exceeded. Latvia has guaranteed its adoption of the euro in 2014 and Lithuania is showing all the necessary signs to do the same in 2015. Higher GDP growth and inflation rates are expected to follow soon afterwards, mainly because of prices being rounded up and an anticipation of higher wages, as happened when Estonia made the same move in 2011.

The Baltic economies, which were previously mostly driven by exports, have now increased their pace of growth by means of private consumption. Moreover, recent years have shown that even though the countries are relatively small this gives them more options to adapt to complicated geopolitical and economic situations like switching their export destination routes from the east to other directions. The relatively optimistic economic forecasts for the Baltics over the next two years have become even more positive.

The investment market
All three Baltic countries have achieved long but good runs up the economic and market-recovery ladders and have become active EU members with continuously rising private consumption, which has made them more attractive to investors. International investors who were previously anxious about relatively small markets because of their economic situations, lower yields and lack of prime assets have become more and more interested in the Baltic real estate markets, which have proved well worth their attention. In each of the three countries the overall transaction volume during the first half of 2013 was over EUR 100 million, thus exceeding the previous expectation of EUR 300 million for the combined Baltic area. Several more transactions are expected to be agreed by the end of the year, making the final figure around EUR 500 million – a level close to 2008. Expectations are even more positive for 2014, which is expected to be twice as active and to regain the level of around EUR 1 billion last seen in 2007.

Average yields for prime retail and office assets remain around 7.75 to 8%, with the most attractive properties lower by up to 75 basis points and secondary properties standing between 9 and 9.5%. Yields for prime logistic centres and warehouses vary between 8.25 and 9%.

The key market trends can be summarised as follows:

1. Exceeding expected transaction volumes
2. Euro adoption to come in Latvia and Lithuania
3. Private consumption drives retailing activity

The office market
Employment growth in the three Baltic capitals has also affected demand in the office market. Although relatively few new international companies have entered the markets during the last year and a half, those already operating have continued to expand, while the continuously growing local companies have tended to relocate their offices to bigger and more modern premises. The demand for prime offices in all three countries is expected to remain high and much of the new supply will come with pre-signed agreements.

The decision recently made by the Estonian government to relocate four of its ministries to a single building and reduce the area they occupy from 20,000 to 16,000 m² has received a positive reception from both landlords and market analysts, as this may result in an even more active market development. If the plan is a success, the example may encourage the Latvian and Lithuanian governments to follow the new trend.

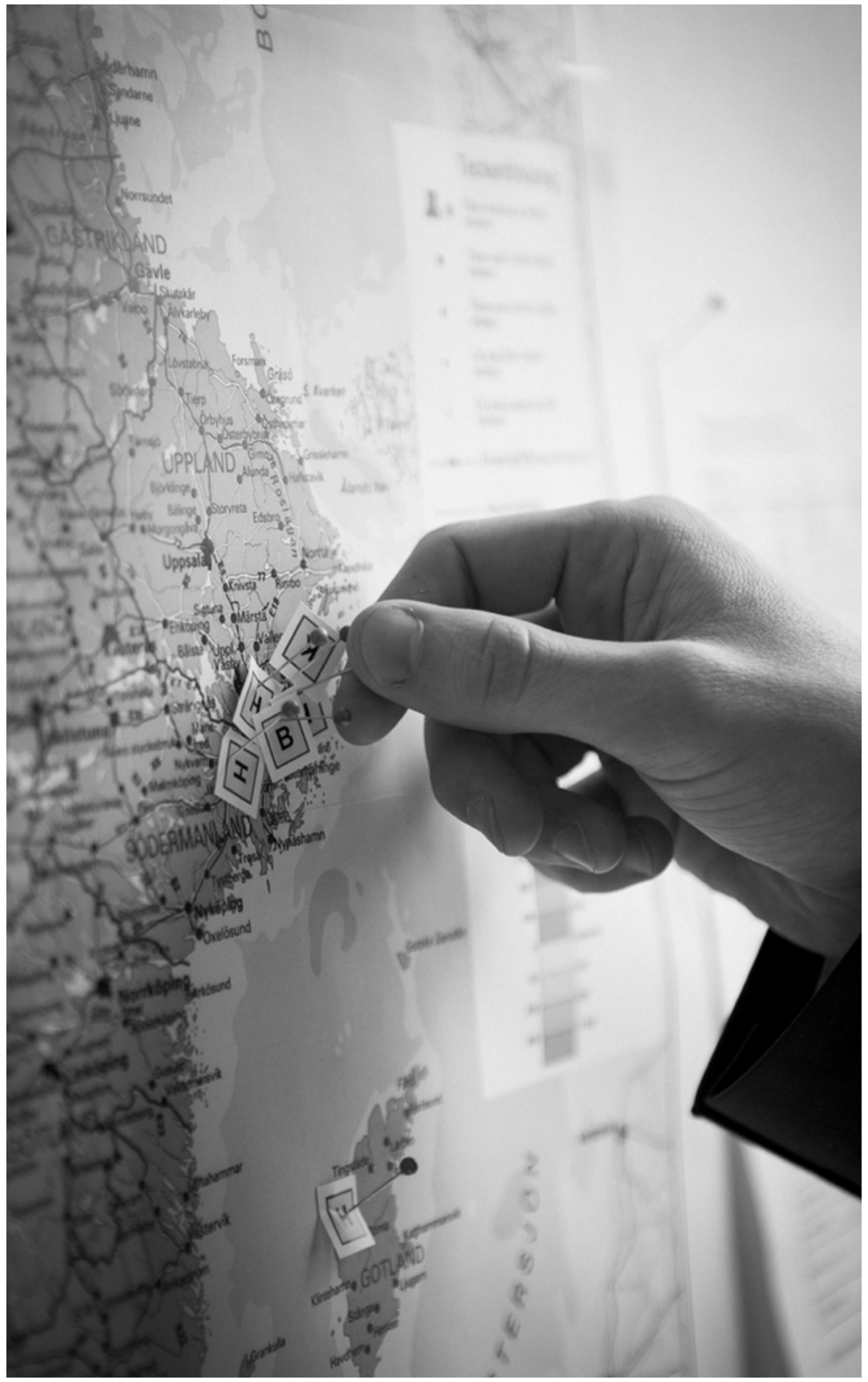
In 2009 both Vilnius and Riga suffered office-rental decreases twice as high as Tallinn. As a result, the recovery in these two cities was much faster during 2010-2012. However, Tallinn is the only city expected to reach its pre-crisis level during the next three years.

The retail market
Private consumption has begun to play a more significant role in the economic recovery, and retail trade in the Baltics is continuing to accelerate for the third year in a row. Pre-crisis habits are starting to reappear and people are willing to increase their spending on non-food and luxury products. This has provided a strong base for interna-

> "Private consumption has begun to play a more significant role in the economic recovery"

tional brands such as H&M to enter the markets, and the company will have opened stores in each of the Baltic capitals by this autumn. Another important event was the opening of IKEA in Vilnius in mid-august, which received over 100,000 visitors during its first working week. Being the first IKEA opened in the region, this has already affected other market players, some of which have had to make changes in their strategies.

Although the major shopping centres in Vilnius have remained strong and continued to strengthen their positions, the construction of several new, mostly local, supermarket projects is expected in the next two years. Low vacancies in the prime shopping centres should remain at the same level, thus resulting in rising rents. The situation may change a little in 2014 and 2015 when several new shopping centres are due to open in Riga and Tallinn, but the increased supply should be absorbed within a few years.



NORTHERN EUROPEAN PROPERTY WILL MANAGE THE SHIFT TO HIGHER INTEREST RATES WELL

The credit crunch of recent years has been particularly tough for small and medium-sized companies. Many banks have reduced their lending to the real estate market, mainly as a result of more expensive funding and tougher regulations regarding the risk-weighting of assets as part of the Basel III rules. As a result, selectivity by banks, low credit availability and elevated interest-rate margins set the tone for the post-Lehman property market – which made it hard for high-leverage opportunistic investors to invest and kept bid yields at elevated levels. Simultaneously low interest rates and stable vacancies kept distressed properties off the market, hampering transaction volumes in non-prime property segments. Instead the market was dominated by risk-averse equity investors and institutions focusing on prime properties. These investors saw that Nordic prime property generated attractive returns in relation to other low-risk assets, such as government bonds and investment-grade corporate bonds – and pushed down prime property yields to record lows.

However, property yields are much more inert than bond yields. Therefore there have been rather healthy margins between the real interest rates and prime property yields during this entire period. These margins will help Northern European property to absorb increasing interest rates better than bonds. In addition, there are good potentials for strong rental development for prime offices as the economic recovery picks up speed, which further reduces the impact of higher interest rates on prices. Thereby, prime property in the Northern European region will be able to manage the transformation to higher long-term interest rates well and will be able to continue to provide attractive returns.

WELL-MANAGED PROPERTIES JUST OUTSIDE PRIME LOCATIONS WILL BE THE WINNERS

There have been clear signs since spring 2013 that investor access to credit is improving and banks are increasingly interested in financing new property deals. Well established property investors have a variety of financing options, both from banks and from alternative sources like the bond market. As a result credit availability for investors has increased and interest-rate margins have come down during the past year.

We are now going through a market shift whereby yields on properties just outside prime locations or in good suburbs are closing in on the yields of the prime end of the market. The best-returning properties during coming years will be medium-to-high-yielding assets with stable cash-flows – like offices in inner-city and prime suburban locations, as well as residential properties in suburbs and regional cities. These segments are targeted both by leveraged investors – for which the positive effects of a favourable rental development and improving credit access outweigh the negative effects of higher interest rates – and also by institutional investors who have realised that they need to go outside the prime segments to get their desired return on capital. This trend is expected to pick up speed during the second half of 2013 and to strengthen further in 2014-2015 as global growth accelerates.

NORDIC PROPERTY FINANCING

IMPROVING THE SUPPLY OF CREDIT ON THE NORDIC MARKETS

The credit crunch of recent years has been particularly tough for small and medium-sized companies. Many banks have reduced their lending to the real-estate market, mainly as a result of more expensive funding and tougher regulations regarding the risk-weighting of assets as part of the Basel III rules. Several major European lenders, including Eurohypo and Société Générale, have left the property market, and since a major part of the real-estate loans in Europe are bank financed, this has had clear effects on the market. Like the rest of Europe, the Nordic and Baltic property markets have suffered from selectivity by banks, low credit availability and increased interest-rate margins since the financial crises. However, as always the market is to some extent self-correcting.

The bond market in continental Europe has increased significantly during this period. And although the Nordic-region property companies generally lag behind developments elsewhere in Europe, the bond market has increased significantly here too. Other forms of alternative lending have also gradually taken a larger share of property financing, mainly through lightly regulated investment funds with large parts of their capital coming from pension funds and insurers – although this too remains more common in the rest of Europe than in the Nordic region. Although alternative property financing is now increasing in the Nordic region, it has not fully compensated for the reduced bank lending, which for several years has made it hard for high-leverage opportunistic investors to invest and has kept bid yields at elevated levels. Over the same period low interest rates and stable vacancies have kept distressed properties off the market, diminishing transaction volumes in non-prime property segments.

The situation generated competitive advantages for well-consolidated, large investors with good track-records – with the result that the Nordic property market has recently been dominated by institutional investors and more conservatively leveraged property companies with access to external funding. In two respects, however, the Nordic and Baltic economies have actually been in better and more stable positions than continental Europe when it comes to access to bank loans during recent years. First, the Nordic banks, which also dominate the Baltic credit market, have low exposure to the peripheral euro countries and have had low credit losses. They have also shown healthy profits in recent years and are well-capitalised – all of which improves their ability to lend. Second, the Nordic countries are benefiting from positive current-account balances, which add stability to the regional credit supply since they provide a way to replace credit from abroad with domestic savings. The financial market is now recognising these strong fundamentals, and the five-year CDSs for the major Nordic banks have come down about 100 basis points since July 2012. As a result there has been a clear turnaround on the market during the past year. Banks are now increasingly interested in financing new property transactions, and property investors have a variety of financing options both from banks and from alternative sources like the bond market.

GOOD POTENTIALITIES FOR PROPERTY INVESTORS TO NEGOTIATE ATTRACTIVE LENDING TERMS

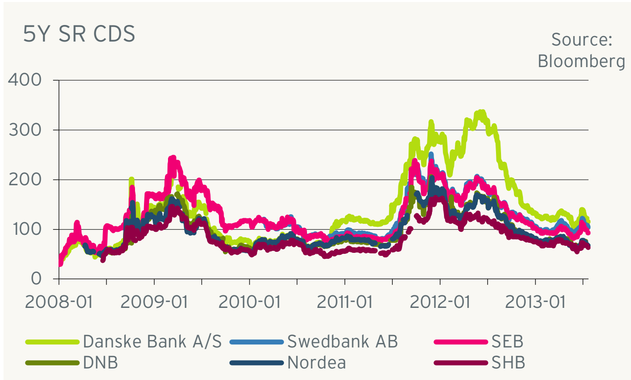
Considering the strong fundamentals in the banking system, it is Newsec's view that the banks erred on the side of caution in restricting credit over the past few years. Some of the banks active in Sweden now have a strategy to increase their exposure to property lending, while others have a strategy to cease reducing their portfolios. Newsec is generally seeing a more positive outlook at the banks about increasing their lending to the property sector now that they realise that things are not actually as bad as they previously feared. This is producing increased competition for new business among the banks. At the same time, there is growing interest from bond investors in buying bonds with properties as underlying assets. The LTVs approved by the banks are slowly increasing, but in many cases remain at a relatively conservative level. Interest margins have fallen and most banks say that they are open for business even with new customers. The reality at a number of the banks is that existing customers are still given preferential terms. However, a proportion of the banks do seem to be viewing the market more enterprisingly. They are prepared to take a calculated risk and get paid for it, while appreciating that everyone benefits if the borrower also makes money. It is a trade-off that places demands on both the borrower and the bank as regards having sound knowledge of what they are engaged in and taking a view that both parties must prosper also after the loan is disbursed. Existing relationships are important, but at the same time today's market naturally offers opportunities to do good business with strong counterparties even if these are potential new customers for the bank.

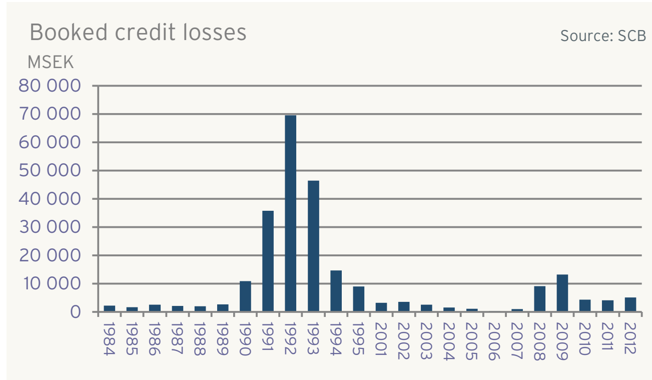
Newsec is noticing that a growing number of banks are now looking at the market in a more finetuned way, focusing primarily on cash flow and individual transactions and placing less weight on whether the customer is an existing client and/or a listed company. Instead they are seeing opportunities to take market shares both for the long and the short term. All in all, the improving market sentiment and increasing competition are generating good potentialities for Nordic property investors to negotiate attractive credit terms.

BANK LOANS VERSUS BONDS – PROS AND CONS

The bond market is a growing competitor to bank loans and sometimes offers higher loan-to-value ratios and less-stringent covenants, but at the same time bonds are blunter instruments if changes need to be made. Information from the borrower becomes more public (to varying degrees, depending on whether the bond is listed or not). But it is natural that other sources of financing should emerge when the banks have restricted the flow of lending. For investors who have less need to make major changes during the duration of the loan and have a more long-term view of their ownership, bonds can be a good and valuable source of financing.

> "The improving market sentiment and increasing competition are generating good potentialities for attractive credit terms"





> "The market for alternatives to bank financing is still in some respects immature, but there is clearly both a great potential and a great need for other sources of financing"

ADVANTAGES OF BANK LOANS

- Relationship-driven lending with a broad spectrum of products available
- Flexibility in the products
- Ability to renegotiate terms during the duration of the loan
- Often lighter documentation
- Often without penalty charges for early repayment
- Limited number of parties involved
- Information given by the borrower is not made public

DISADVANTAGES OF BANK LOANS

- Limited availability
- The banks impose demands for further business
- Some degree of control over the borrowing company etc
- Usually requirements for amortisation
- Relatively stringent covenant packages
- In practice an additional cost for receiving a fixed interest rate

ADVANTAGES OF BONDS

- A broader source of financing
- Longer terms are available
- Pricing on the capital market is transparent
- Maintaining independence from the banks (and their demands for further business)
- Less stringent covenant packages
- No requirements for amortisation
- Few restrictions on dividends
- Can be structured as secured or unsecured; senior or subordinated (up to now there has been surprisingly little price difference between secured and unsecured on the Swedish bond market, but as the market becomes more evolved it is not wholly unlikely that the gap will increase)
- No extra cost to obtain a fixed interest rate

DISADVANTAGES OF BONDS

- The process with investors, and later the documentation, are time-consuming
- The borrower releases public information
- Little possibility of repayment until after a non-call period
- Because of a large investor base, more difficult to obtain change in terms etc.

The market for alternatives to bank financing is still in some respects immature, but there is clearly both a great potential and a great need for other sources of financing, such as the bond market. If the bond market increases its interest in also smaller bond issues and further on increases its interest regarding non listed companies and increase the sensitivity of its price setting (for secured as against unsecured bonds), it will definitely become a strong competitor to bank financing in future years.

NEWSEC DEBT CAPITAL MARKETS

Newsec Debt Capital Markets offers customers support with senior, junior and mezzanine loans through banks as well as through the bond market. Newsec DCM also offers help with other structured products and different kinds of alternative sources for financing working capital. We advice our customers all the way from analysis, structuring and negotiation to signing and disbursement. Newsec DCM also offers support with negotiations when trading interest rate and FX derivatives.

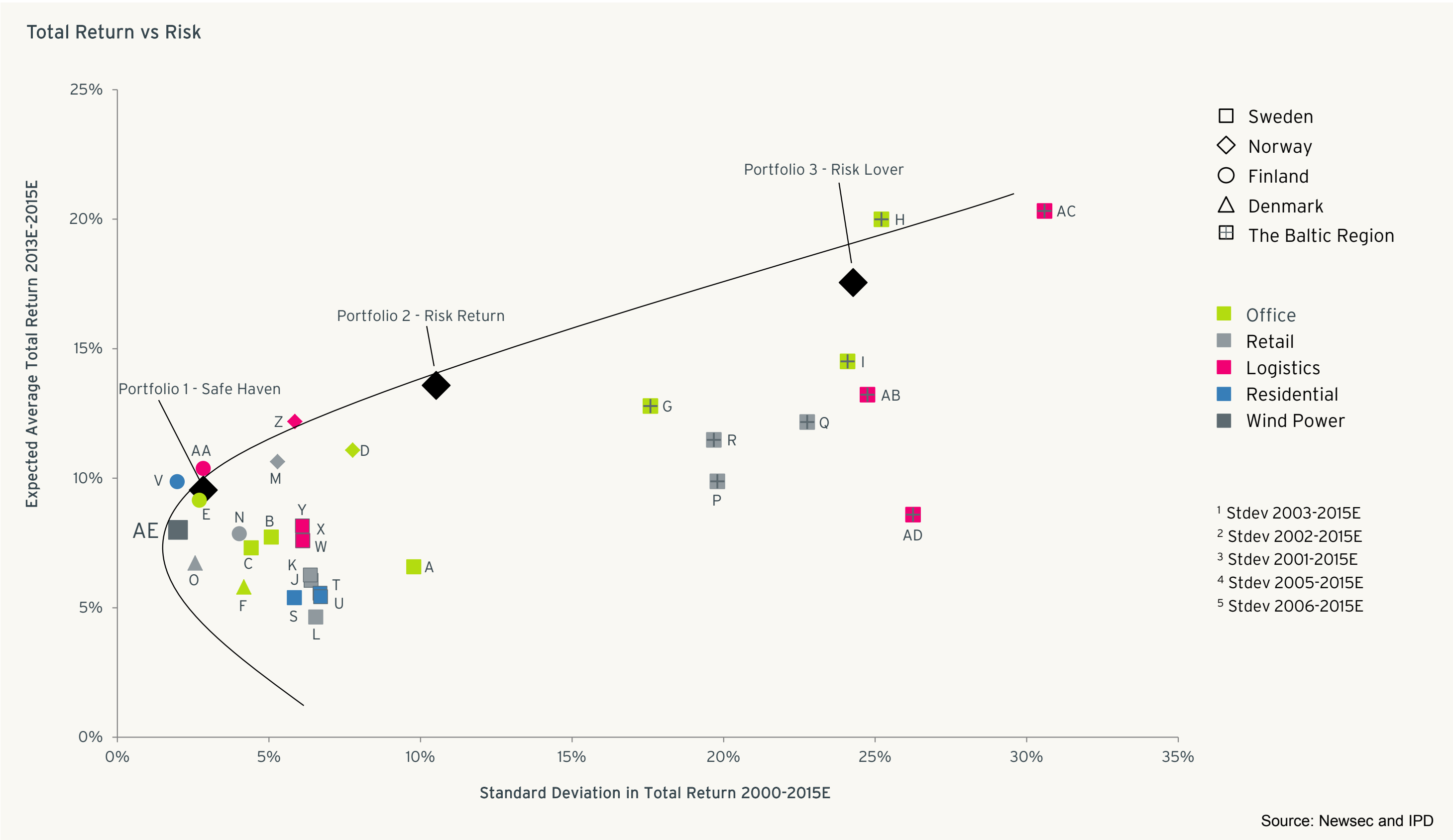
MATS KARLSSON, HEAD OF DEBT CAPITAL MARKETS

Mats is responsible for Newsec Debt Capital Markets, focusing on external financing for the customers of Newsec. Mats has more than 15 years of experience from domestic and international banks.

mats.karlsson@newsec.se

+46 701 80 27 67

WELL-MANAGED PROPERTIES JUST OUTSIDE PRIME LOCATIONS WILL BE THE WINNERS



PORTFOLIO OPTIMISATION – FINDING THE OPTIMAL RISK/RETURN COMBINATION

It is possible to draw an effective frontier which identifies the best possible total return for each level of risk for each of the prime property segments in the Northern European region. The Baltic property market is a riskier market than the Nordic one, but is also expected to have a stronger total return. To illustrate this, Newsec has outlined three model portfolios based on based on assessments of the prime property segments in our region and their different levels of risk. The first portfolio, 'Safe Haven', is a diversified portfolio with good return and low risk and consists mainly of residential, logistics and office properties in prime locations in Finland. Prime retail properties in Norway, offices in Gothenburg and logistics in Malmö are also included. The second portfolio, 'Risk Return', includes a larger share of offices and logistics, partly in the Baltic region. The third portfolio, 'Risk Lover', includes logistic and office properties in the Baltic region and produces high return but with high risk attached.

> "There are good potentials for strong rental development for Nordic prime offices as the economic recovery picks up speed"

A Office Stockholm Prime
B Office Gothenburg Prime
C Office Malmö Prime
D Office Oslo Prime
E Office HMA Prime
F Office Copenhagen Prime
G Office Tallinn Prime[1]
H Office Riga Prime[1]
I Office Vilnius Prime[2]

J Retail Stockholm Prime
K Retail Gothenburg Prime
L Retail Malmö Prime
M Retail Oslo Prime
N Retail HMA Prime[3]
O Retail Copenhagen Prime
P Retail Tallinn Prime[4]
Q Retail Riga Prime[5]
R Retail Vilnius Prime[4]

S Residential Stockholm Prime
T Residential Gothenburg Prime
U Residential Malmö Prime
V Residential HMA Prime

W Logistics Stockholm Prime
X Logistics Gothenburg Prime
Y Logistics Malmö Prime
Z Logistics Oslo Prime
AA Logistics HMA Prime
AB Logistics Tallinn Prime[4]
AC Logistics Riga Prime[5]
AD Logistics Vilnius Prime[4]

AE Wind Power

Portfolio 1 - Safe Haven
Portfolio 2 - Risk Return
Portfolio 3 - Risk Lover

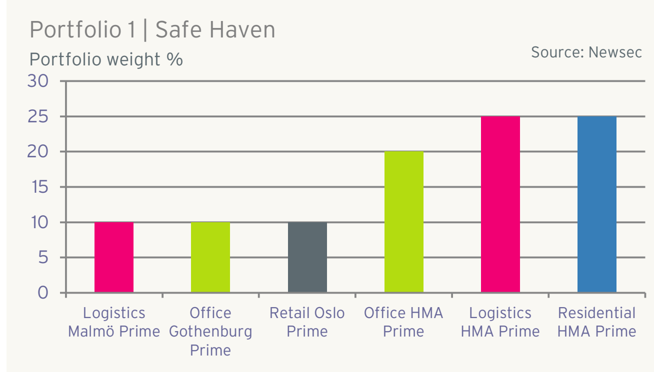
PRIME PROPERTIES WILL MANAGE THE SHIFT TO HIGHER INTEREST RATES WELL ...

Real interest rates followed a declining trend from the early 1980s to mid-2012, and decreasing yields have been an important driver of stock, bond and property prices alike during the past decade. However, several factors are now indicating that we have passed the interest-rate bottom and are gradually moving towards higher real interest rates closer to the historical average of 1.5 – 2%. This will impact on all types of asset – including stocks, bonds and property – which are currently priced according to today's historically low interest rates. The property market will thereby lose the unique ability to produce real return it has had during recent years – and the improving investment alternatives will have an upward pressure on yields for the most attractive property segments. However, property yields are much more inert than bond yields. As a result there have been quite healthy margins between the real interest rates and prime property yields in recent years. These margins will help Nordic property to absorb rising interest rates better than bonds. In addition, there are good potentials for strong rental development for Nordic prime offices as the economic recovery picks up speed, which will further reduce the impact of higher interest rates on prices. Thereby, prime property in the Nordic region will be able to manage the transformation to higher long-term interest rates well and will be able to continue to provide attractive returns.

... BUT WELL-MANAGED PROPERTIES JUST OUTSIDE PRIME LOCATIONS WILL BE THE WINNERS

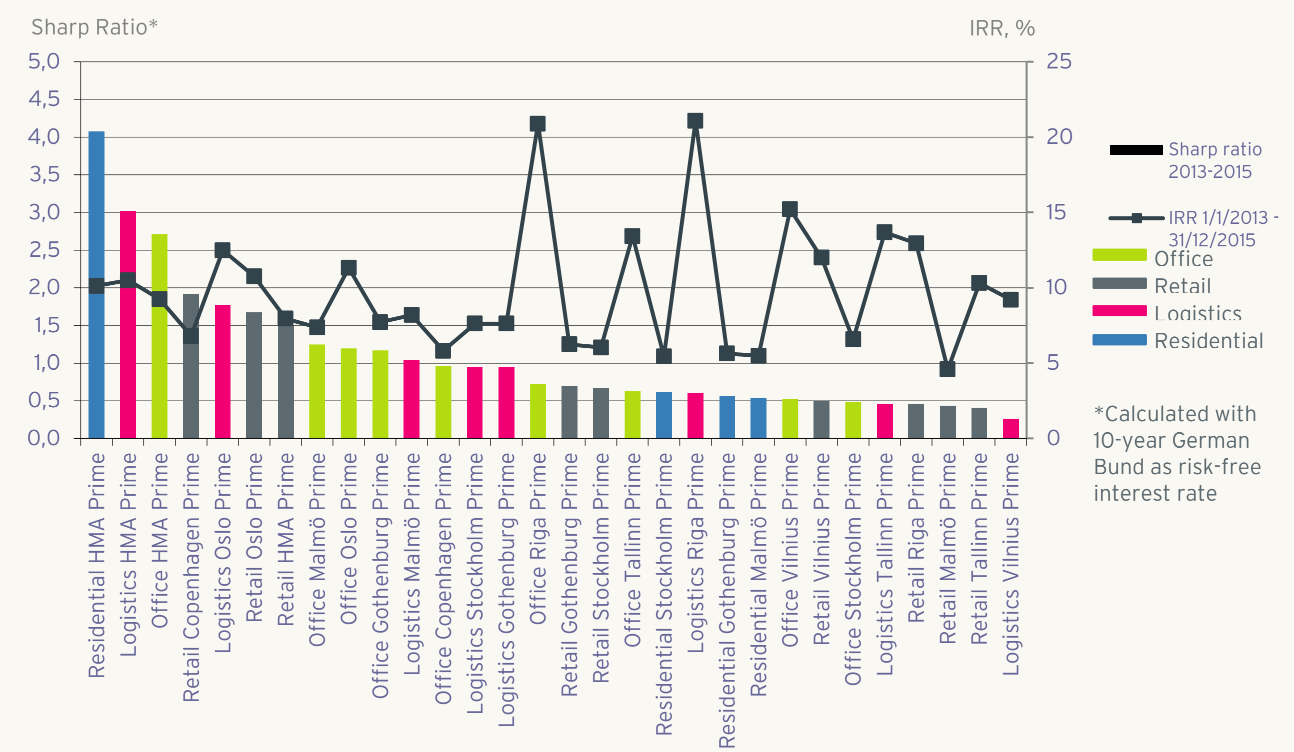
There have been clear signs since spring 2013 that investor access to credit is improving and banks are increasingly interested in financing new property deals. Well established property investors on the Nordic market now have a variety of financing options, both from banks and from alternative sources

Based on historical total-return data since the early 2000s, Newsec has assessed the risk level for each property segment in the Northern European region by calculating the standard deviation in both the historical and the forecast future total return. The assessed risk has then been set in relation to each segment's expected development of total return for 2013-2015, and risk-adjusted return has been calculated.

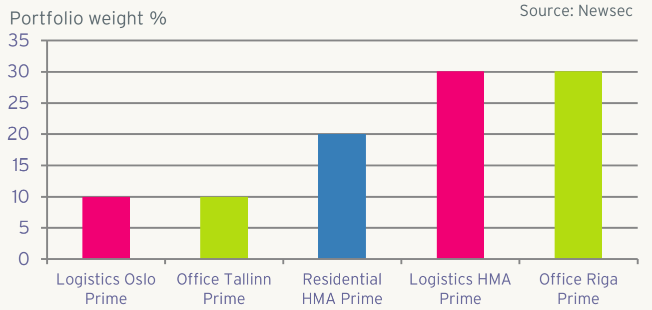


> “The best-returning properties during coming years will be medium-to-high-yielding assets with stable cash-flows”

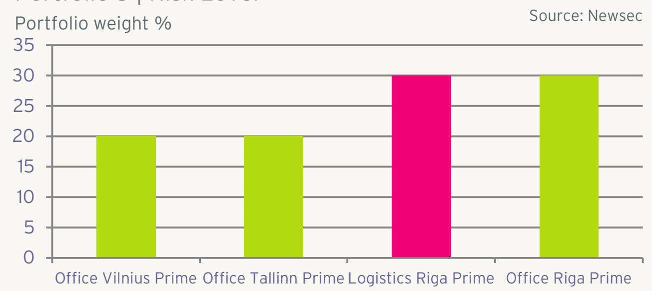
Sharp Ratio/Internal Rate of Return 2013E-2015E



Portfolio 2 | Risk Return



Portfolio 3 | Risk Lover



> “The Finnish property market stands out with expectations of a strong total return due to relatively high yield levels combined with low historical volatility”

like the bond market. As a result credit availability for investors has increased and interest-rate margins have come down during the past year.

We are now going through a market shift whereby yields on properties just outside prime locations or in good suburbs are closing in on the yields of the prime end of the market. The best-returning properties during coming years will be medium-to-high-yielding assets with stable cash-flows – like offices in inner-city and prime suburban locations, as well as residential properties in suburbs and regional cities. These segments are targeted both by leveraged investors – for which the positive effects of a favourable rental development and improving credit access outweigh the negative effects of higher interest rates – and also by institutional investors who have realised that they need to go outside the prime segments to get their desired return on capital. This trend is expected to pick up speed during the second half of 2013 and to strengthen further in 2014-2015 as global growth accelerates.

FINNISH PROPERTIES HAVE THE BEST RISK-ADJUSTED RETURN

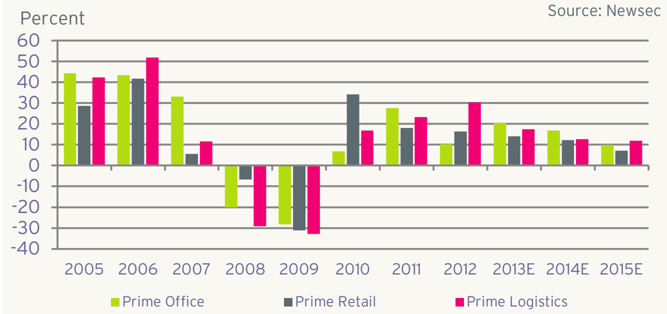
The Nordic property market in general offers a low risk and a stable total return – and the Finnish property market stands out with expectations of a strong total return due to relatively high yield levels combined with low historical volatility. Property segments in Norway and Sweden generally have a similar total return but a somewhat higher risk. However, cash-flows are stable in these markets and the risk is still low in an international perspective.

Due to the stable wage growth and strong urbanisation in the Nordic region, properties with a strong link to domestic demand will have the best risk-adjusted return in 2013-2015. The best-performing segments are expected to be residential and logistic properties in good locations in the Helsinki Metropolitan Area, propelled by a stable demand resulting from rising real incomes and population increase.

However, logistic properties in Norway also stand out even if their historical volatility is somewhat higher. And although low yields are hampering total returns for prime residential properties in the main Swedish cities, there is a clear undersupply of residences in the main cities and the regulated rents make cash-flows extremely safe. Except in Denmark, where household finances are still impaired from the property bubble of earlier years, Nordic households are fundamentally strong and private consumption is expected to continue to be an important growth engine. Retail properties – and logistic properties connected to the retail sector – are therefore expected to perform well, although competition between shopping centres is fierce. The service sectors in the major Nordic cities will also keep on

Total Return | Nordic region

Total Return | Baltic region



> "Over time the Baltic property market is expected to converge with the Nordic market"

growing and will generate a continuous demand for high-quality office premises. However, risk-adjusted returns for the office segments are hampered by historically high rental volatility, especially in the CBDs of Stockholm and Oslo.

THE YIELD SPREAD BETWEEN THE NORDIC AND BALTIC REGIONS IS GRADUALLY DECLINING

Over time the Baltic property market is expected to converge with the Nordic market because the current risk premium linked to the region will gradually decline. The Baltic property market has a higher overall risk than the Nordic market, but the expected development of total return is also expected to be stronger.

The trend in rents for high-quality properties in prime locations is expected to be favourable and the yield compression is expected to continue in 2013-2014. The segment with the best risk-adjusted return on the Baltic property market is prime offices in Latvia. However, both risk and total return are expected to be high in this segment. Investors who prefer less risky assets may instead look at prime office assets in Estonia which are expected to have a similar risk-adjusted return to the best-performing Baltic segments.

WIND POWER – PROVIDING ATTRACTIVE RISK-ADJUSTED RETURN

Expectations of rising power prices create an opportunity for institutions and financial investors to gain attractive risk-adjusted returns by investing in wind power. Wind power assets can often produce operating cash flows with annual returns before debt service exceeding 10%, and unleveraged IRRs of 6-8% over 20 years without considering any residual value. Beside attractive returns, wind power provides the investor with an additional asset class with low correlation to broad market indices and a long investment horizon, combined with a green profile. Risk is primarily related to short-term volatility in Swedish power and electricity certificate prices, but can be handled by active hedging strategies. Internationally, in countries where wind power development has advanced further than in Sweden, institutional capital is increasingly challenging utilities for large-scale energy infrastructure investments in wind farms.

DEFINITIONS

OFFICES

- In the Nordic region, the forecast refers to new or newly refurbished modern and flexible office premises with normal area efficiency.
- In Finland, the forecast refers to office premises with normal area efficiency in office buildings in office areas.
- The size of the premises is assumed to be around 1,000 m².
- In the Baltic region, the forecast refers to new or newly refurbished stand-alone modern business centres.
- In Sweden the market rent includes heating and excludes Property Tax.
- In Finland the market rent includes heating and Property Tax.
- In Norway and Denmark the market rent excludes heating and Property Tax.
- In the Baltic region the market rent excludes all applicable taxes.

RETAIL

- Rent levels refer to attractive, modern high-street or centrally located shopping-centre retail premises with a prime location on the high street or in the shopping centre.
- In Norway, rents refer only to shopping centres.
- The rents do not refer to premises used for groceries and daily necessities (except in the Baltic region).
- The size of the premises is assumed to be around 250 m².
- The rent excludes heating and Property Tax in all Nordic countries except Finland where heating and Property Tax are included.
- In the Baltic region the market rent excludes all applicable taxes.

LOGISTICS

- In the Nordic region the size of the premises is assumed to be 5,000–20,000 m² with 5–10 years lease agreement.
- In the Baltic region the size of the premises is assumed to be from 3,000 m² with 3–5 years lease agreement.
- In the Nordic region the rent excludes heating and Property Tax.
- In the Baltic region the market rent excludes all applicable taxes.

RESIDENTIAL

- The forecast refers to attractive locations.
- The standard assumes buildings constructed in the late 1990s and with an apartment area of around 60–70 m².
- The rent includes heating and Property Tax.

EXCHANGE RATES

All rents and transaction volumes are calculated using exchange rates from September 2013.

THE FULL SERVICE PROPERTY HOUSE IN NORTHERN EUROPE

Today, Newsec employs over 600 professionals in over 20 offices and covers all parts of the commercial property market. Newsec provides services to most of the leading property owners, investors and corporates in the region

Newsec – The Full Service Property House in Northern Europe – is by far the largest specialised commercial property firm in Northern Europe.

Newsec manages more properties and carries out more transactions, more lettings and more valuations than any other firm in Northern Europe. Through this great volume, and the knowledge and depth of our various operations, we acquire extensive and detailed knowledge of the real estate market. In turn, we can quickly identify business opportunities that create added value.

Our prime market is Northern Europe, but through our alliance membership with BNP Paribas Real Estate, we offer our services on the global market. This makes Newsec Northern Europe's only full service property house, and provides us with an unique ability to forecast the future.

A HISTORY OF GROWTH

Newsec is the result of a unique history of growth, characterised by constant originality of thinking. The first issue of the comprehensive market analysis, Newsec Property Outlook, was published in 2001.

The Group expanded internationally into Finland in 2001, Norway in 2005 and the Baltic countries in 2009. The Norwegian asset and property management companies First Newsec Asset Management and TM Partner were acquired in 2012. In 2013, Newsec acquired Jones Lang LaSalle´s Swedish property management operation.

Newsec is a stable and long-term player. The company was founded in Sweden in 1994. The founding family have been the main owners from the start, with the rest of the company owned by key executives in the Group.

Newsec offers a comprehensive range of services in the business areas Capital Markets, Leasing, Asset & Property Management, Valuation & Advisory, and Corporate Solutions.

CAPITAL MARKETS

In recent years Newsec has carried out property transactions with an underlying property value of close to EUR 10 billion. Newsec has 50 professionals working in Capital Markets. Our offering includes transaction advice on Single properties, Property portfolios, Development properties, Sale & Leaseback and Renewable energy.

LEASING

Last year our 30 professionals arranged leases for commercial space totalling 700,000 square metres in all types of properties. Newsec's broad network and experienced team provide the right conditions to minimise vacancies and to find the best tenants.

ASSET & PROPERTY MANAGEMENT

Newsec's more than 500 professionals manage 1,500 properties with a total footprint of over 11 million square metres - including 60 shopping centres. Our services include Asset Management, Property Management, Property Caretaking, Leasing and Project Development.

VALUATION & ADVISORY

In recent years our team of 60 professionals has valued properties with an underlying value of EUR 70 billion each year. Due to our comprehensive market presence, our team has access to more market intelligence than any other player on the market.

CORPORATE SOLUTIONS

Newsec's 25 professionals in Corporate Solutions manage projects for our clients in cooperation with the more than 600 employees of the whole Group. Newsec advises tenants and owner occupiers in all matters concerning the best use of premises.

CONTACT AND ADDRESSES

SWEDEN
info@newsec.se

Stockholm
Stureplan 3
P.O. Box 7795
SE-103 96 Stockholm,
Sweden
Tel: +46 8 454 40 00

Stockholm
Humlegårdsgatan 14
P.O. Box 5365
SE-102 49 Stockholm,
Sweden
Tel: +46 8 55 80 50 00

Gothenburg
Lilla Bommen 5
P.O. Box 11405
SE-404 29 Göteborg,
Sweden
Tel: +46 31 721 30 00

Gothenburg
Kungsportsavenyen 21
SE-411 36 Göteborg,
Sweden
Tel: +46 31 721 30 00

Öresund Office
Dockplatsen 12
SE-211 19 Malmö,
Sweden
Tel: +46 40 631 13 00

NORWAY
info@newsec.no

Oslo
Filipstad Brygge 1
P.B. 1800 Vika
NO-0123 Oslo,
Norway
Tel: +47 23 00 31 00

Lysaker
Lysaker Torv 8
P.O. Box 93
NO-1225 Lysaker,
Norway
Tel: +47 92 84 46 46

FINLAND
info@newsec.fi

Helsinki
Mannerheiminaukio 1 A
P.O. Box 52
FI-00101 Helsinki,
Finland
Tel: +358 207 420 400

Tampere
Aleksanterinkatu 32 B
FI-331 00 Tampere,
Finland
Tel: +358 207 420 400

ESTONIA
info@newsec.ee

Tallinn
Roseni av. 7
EE-10111 Tallinn,
Estonia
Tel: +372 664 5090

LATVIA
info@newsec.lv

Riga
Zala street 1
LV-1010 Riga,
Latvia
Tel: +371 6750 8400

LITHUANIA
info@newsec.lt

Vilnius
Gediminas av. 20
LT-01103 Vilnius,
Lithuania
Tel: +370 5 252 6444