NEWSEC PROPERTY OUTLOOK AUTUMN 2015

15TH ANNIVERSARY

NEWSEC

PROPERTY OUTLOOK

CONTENTS

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EXECUTIVE SUMMARY

On Monday 24 August global stock markets followed the market contraction in China and experienced their worst trading day of the last couple of years. Valuations on the Chinese stock exchange have been seen as extremely inflated for a long time, and the Shanghai stock exchange fell by almost 9% on the new Black Monday at the end of August when institutions and savers began to sell off their holdings. This caused a reaction on stock markets across the globe and markets in London, Frankfurt, Stockholm and Hong Kong all fell by around 5%.

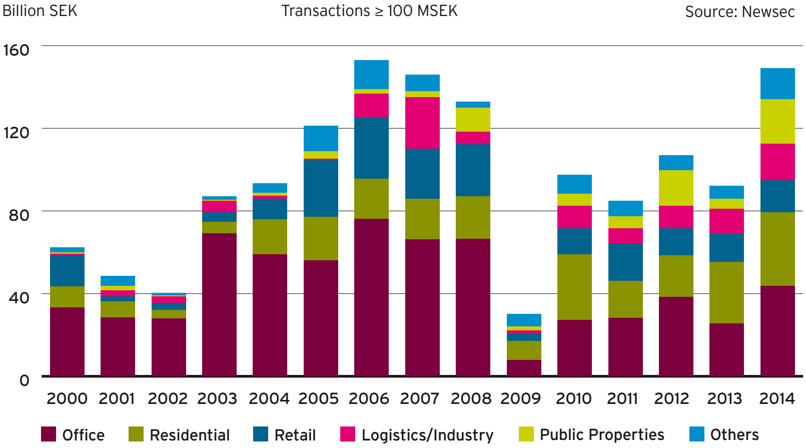
Investors fear that this will cause further uncertainty on the world's investment markets going forward. However, we believe that the commercial property market will still be an interesting market to invest in for the foreseeable future, despite a fairly long trend of increasing property prices. Interest rates are historically low and there is plenty of liquidity in the system; in addition, central banks will not be able to increase interest rates significantly as this would inhibit economic growth.

The Northern European property market since 2000

This Newsec Property Outlook is the thirtieth edition. We started to distribute the report twice a year in 2000 and it has now reached its fifteenth anniversary. This issue is structured as a special edition where we follow the development of the economy and the property market in a fifteen-year perspective. As always, we will also report on the current status of the property market in Northern Europe and the latest happenings there.

The market for commercial real estate in Northern Europe has gradually become more professional and transparent in the course of the past 15 years. This has increased the interest in investments, the availability of market information and the competitiveness of the market. Throughout the 2000s more and more capital has been allocated to commercial real estate. Particularly after the financial crisis we have seen a significant reallocation 2008 of capital from the stock and bond market to real estate. A likely explanation is the volatility of the stock market, the ability to use leverage, falling interest rates and the strong historical performance of real estate compared to other asset classes. Pension funds and institutions in the Nordics have historically had too low exposure to real estate in their portfolios, which means that they have missed a significant part of the value creation within the sector since the 1990s. Rather late, they have now realised this and are amongst the players reallocating capital to increase their exposure to real estate.

Transaction Volume Sweden: Split by Segment

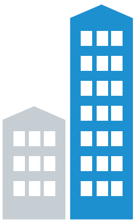


In our view, the most interesting market trend in recent years is the growth and increased maturity of the market for public properties, particularly on the Swedish and Norwegian markets. The market in Sweden was deregulated some 20 years ago, but only recently have we seen the formation of property companies specialising in various forms of public-service operations. Many pension funds are also showing increasing interest in this segment due to the long-term investment horizon and stable yield. Today, private property owners together own about 30% of this market area. The segment is characterised by stable yield in relation to risk, and with the government or local council as the principal the occupancy rates and rents are higher and leases have a longer duration. The transaction volume on the market is expected to go on increasing since local councils are expected to keep selling-off public properties.

High market activity will intensify during the second half-year

The low-interest-rate environment will continue through the autumn. Good access to financing and lack of high-yielding alternatives will lead to continued high transaction volumes on the property markets in Northern Europe during the second half of 2015.

»Good access to financing and lack of high-yielding alternatives will lead to continued high transaction volumes on the transaction markets«



+90%

TRANSACTION VOLUMES FINLAND 2015

The Finnish property market saw a transaction volume of nearly EUR 3 billion in the first half of 2015, which is an increase of around 90% compared with the same period in 2014. Nearly one-third of the total transaction volume in 2015 came from retail transactions. One current trend on the Finnish property market is that owner-occupiers are continuing to ease their financial burden by seeking sale-and-leaseback arrangements. Another is that international investors have again started to show interest in Finland as the overall market sentiment is now beginning to look better while yield levels are still quite attractive compared to the rest of Scandinavia and Europe.

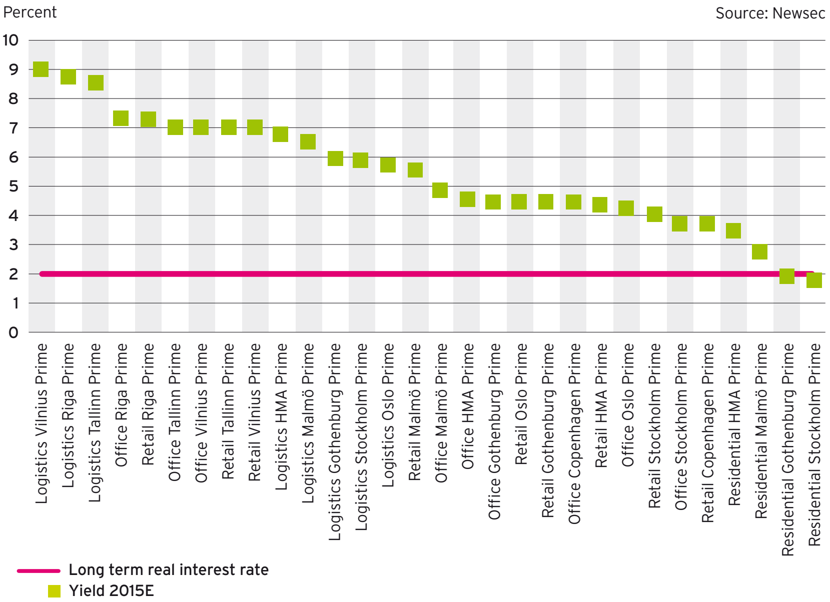
In Sweden the transaction market has been extremely strong during 2015.Deals with a total volume of over SEK 83 billion have been carried out until August 31st. The Swedish central bank has continued to cut the central bank interest rate during the year (to a current figure of -0.35%), which has sustained the good financing climate and continued strength of property. Sweden's smaller regional towns continue to be of high interest to investors and have so far accounted for 35% of the total transaction volume. Compared to last year, there is also an increased interest from international capital. So far this year international investors account for around 30% of the transaction volume compared with around 15% for the same period last year. The transaction market is predicted to further intensify during the second half of the year and Newsec still predicts that 2015 will be a record year.

This year the Danish market is predicted to reach a slightly higher transaction volume than last year when it reached DKK 30 billion. On the prime office market in Copenhagen the supply and demand imbalance has driven yields down to a historically low 4.5% in 2015. The demand for prime properties will continue to be strong throughout 2015. The activity is also likely to feed through the secondary markets due to the yield compression seen across all segments. Investors are also likely to adjust their risk profiles in order to find investment objects and to secure profitable returns.

Norway's property market is continuing to break records in terms of transactions; the total transaction volume is expected to exceed NOK 90 billion in 2015, which would be a new record level. This would be an increase of 17% from last year when the total volume was NOK 77 billion. However, there are now some indications that the market is beginning to approach its peak. Some of the major players on the Norwegian market are taking advantage of the strong market conditions to offload non-strategic properties; and interest from international investors (which tends to come late in the transaction cycle) is rapidly increasing.

The total transaction market in the Baltics is predicted to reach EUR 520 million in 2015. This would be a large increase over 2014 when the volume amounted to EUR 423 million. The traditional trend of Baltic, Nordic and Russian investors being the only players on the Baltic market has changed during 2015. Now that Lithuania (the last of the countries in the region) has joined the euro this year, the prediction is that the demand from international investors for properties throughout the region will increase going forward. A few of the larger deals this year have come from investors in countries such as the Netherlands, Malta and Switzerland.

Yield



What can history teach us about the future?

With a 15 year perspective we can declare that the property market is extremely hot in all the Nordic countries, and especially so in the capital-city regions. The transaction volume is reaching new

»The property market is extremely hot in all the Nordic countries and transaction volumes is reaching new record levels in 2015«

record levels in 2015 and prices are at their peak in many segments and still rising. The number of investors is increasing rapidly and adding fuel to an already heated market and they all indicate that they wish to increase their property investments further. The market looks as if it can continue strong, not least in Sweden, and that gives long-term players opportunities to fine-tune their portfolios. Other players who are less long-term in their holdings now have the chance to get very well paid if they want to reduce their property exposure.

Historic patterns of the property market show a cyclic sequence of peaks and troughs every eight to ten years. According to these historical trends, the market should now be in the final phase of a cycle, and market values should begin to fall next year before reaching its bottom in 2017. Newsec does not foresee any drastic crisis on the market, but we do believe that a cooling of the transaction market is likely. The reason for this is today's low-interest-rate regime, which is forecasted to continue for some time to come. Historically it is the fast and major hikes of interest rate that have given rise to deep crisis on the property market. Property companies (usually highly leveraged) have then been substantially burdened by a large negative net interest income, leading to suspended payments. At current interest rates, this is still a long way off. In addition to the low-interest-rates, there is an enormous supply of capital from both domestic and international pension funds investing on the Swedish property market.

2001 Johan Staël speaks at a conference in Hong Kong before Icon Medialab's investments in the Asian market.

FIFTEEN YEARS OF UPS AND DOWNS IN THE WORLD ECONOMY

The IT era

Just over fifteen years ago, at the start of the new millennium, the world economy was absolutely boiling. Stock markets all over the world were valued at all-time highs, and P/E ratios, especially in the IT sector, were at extremely high levels. Companies on Sweden's OMX exchange had an average P/E valuation of 30–40, and many of the exchange's IT companies were being traded at P/E's in the 60–100 bracket as well as constituting a large part of the exchange's total value. The trend, which had been driven by an extreme credit expansion over a long period, had been similar in large parts of the developed world. For example, companies listed on the US 'Nasdaq Composite' IT index were valued at average P/E's of 265 at the time. Europe, together with large parts of the developed world, was hard-hit when the IT bubble burst.

Companies were valued on speculation. Normal parameters such as company profits and prospects of future profits were hard to apply since the new internet companies had no substantial assets and it was hard to assess when they might start to earn money. Everything depended on the arrival of the Great Internet Revolution. The investors believed that the time was near and invested their capital in confidence of a rise in the value of their investments by that time. The market was driven by speculation and expectations about the future rather than an analysis of the companies' actual position. It was the visions concerning the value of companies that drove on the unreasonable upward valuations on the stock exchange.

On Monday 6 March 2000 the Stockholm Stock Exchange reached its highest level ever. At the end of the same week, on Friday 10 March, the American IT exchange Nasdaq reached its peak. The start of what would lead to tumult on the world's stock exchanges in the years that followed was an uncertain profit forecast from Intel. At the same time the recently listed internet bookseller Amazon fell back from its peak price, and some analysts began to warn of a downturn on the exchange.

What would follow was no small downturn, but rather one of world history's worst stock-market collapses ever. From its peak level in March 2000 the Stockholm Stock Exchange fell by over 70% to its low point in October 2002. In the middle of April the Nasdaq in America had fallen by a full 37% in just five weeks. Never before had a major index fallen so rapidly from its all-time high. By the end of November that year the Nasdaq had fallen by just over 50%, and the crash was at that time worse than the Wall Street crash of 1929. After the stock-market crash it would be seven years, until April 2007, before the Stockholm Stock Exchange had recovered.

In Sweden giant companies such as Ericsson experienced their worst crisis of modern times. Many of the Swedish IT era's most famous and successful companies such as Icon, Spray, Framfab, Boo.com and Cell Network either went under or had a hugely challenging future to face. A share value of about SEK 300 billion was wiped off the Swedish exchanges between March and October 2000 (and this figure does not include the major companies of that time such as Ericsson, Nokia and Telia). As a comparison, the crash was equivalent to about 3.4 ABBs at today's share value. Both some of the most hyped Swedish companies and private persons saw their enormous stock-market values

2002 One of the worst stock market collapses. US Nasdaq fell by 37 per cent in five weeks. By the end of the year the crash was worse than the Wall Street crash of 1929.

vanish; for example Framfab lost a share value of just over SEK 37 billion during this period.

The financial crisis

The years following the IT crisis were marked by an extreme expansion of credit all over the world. A large part of the world saw a strong rise in property prices together with, rising inflation and rising salaries. Once the IT crisis had subsided in 2002, growth began to gather pace again because the banks were motivated to lend money as a result of a substantial lowering of the American key interest rate as a means of stimulating the economy. Peak production of crude oil occurred in 2004, which led to rising oil prices and increasing inflation. In the same year the American finance inspectorate – the US Securities & Exchange Commission (SEC) – also decided to raise the permitted lending of equity capital to 40 times (from a previous figure of 12 times) for a number of large investment banks. Inflation continued to rise, and to counter this the Federal Reserve (the American central bank) raised the key interest rate strongly in 2006.

»The financial crisis of 2007–2008 was an ever greater worldwide financial crisis than the one caused by the IT bubble at the start of the millennium«

During this period many countries, including the USA, European countries and the Baltics, saw large inflows of capital from the oil nations and widespread investments from China, while Japanese pension funds bought American securities. In the USA, the large overseas lending compensated for the shortfall in domestic private saving and resulted in an increased access to capital on the American market. The extensive foreign ownership in both the USA and many other countries of the world is one important reason why the crisis that was to come spread so very widely across the world.

The financial crisis started in the USA as a result of a long series of decisions by authorities that were intended to stimulate the housing market. When the interest rate was raised in 2006, mortgages became more expensive, which led to reduced demand for housing, and house-prices fell. Many people were forced to leave their homes as a result of the rising costs of home ownership and increased unemployment. However, the risk of falling prices did not impact the individuals who could not afford to go on living there, but rather the bank. The householders lost their homes but avoided further demands on a house that was worth less than the amount of the loan. What further intensified the magnitude of the trend were the so-called sub prime loans – property loans with poorer levels of security. The banks made loans to

2004 Peak production of crude oil occurred in 2004, which led to rising oil prices and increasing inflation.

households with poor ability to repay the money, on the assumption that the rise in value of the house would be able to cover both interest payments and redemption payments in the future when the house would have risen in value. The loans were often subsequently sold on to mortgage institutes and other financial players with the help of investment bankers such as Bear Stearns and Lehman Brothers. A chain of falling house prices and the fact that no one knew who owned the bad securities created huge uncertainty on the US and world financial markets, and capital flows were strangled because no one knew whom it was safe to lend to.

The financial crisis of 2007–2008 was an even greater worldwide financial crisis than the one caused by the IT bubble at the start of the new millennium. In some places in the world the financial crisis led to several years' recession in which entire countries such as Iceland, Greece, Spain and Ireland were at risk of going bankrupt, and the euro zone was also threatened. In the autumn of 2008 the financial crisis reached its zenith and banks all over the world began to totter. Some such as Lehman Brothers went bankrupt, while others were nationalised (e.g. RBS) or were bought by competitors. Credits previously viewed as secure now became very hard to value, and this led in effect to a cessation of lending. The non-availability of new credits and the widespread uncertainty meant that demand plunged and the crisis had consequences beyond the financial markets. Industrial production and exports slowed down markedly and unemployment started to rise. In Sweden, GDP fell by nearly SEK 190 billion in 2009 compared with 2008.

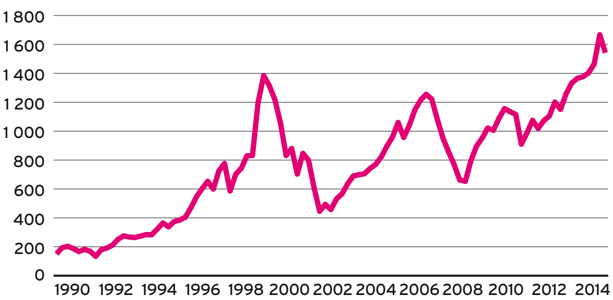
2006 Credits previously viewed as secure now become very hard to value, which leads to a cessation of lending.

2009 In Sweden, GDP fell by nearly SEK 190 billion in 2009 compared with 2008. The largest fall in GDP of modern times.

2008 The financial crisis reaches its zenith and banks all over the world begin to totter. Lehman Brothers files for bankruptcy.

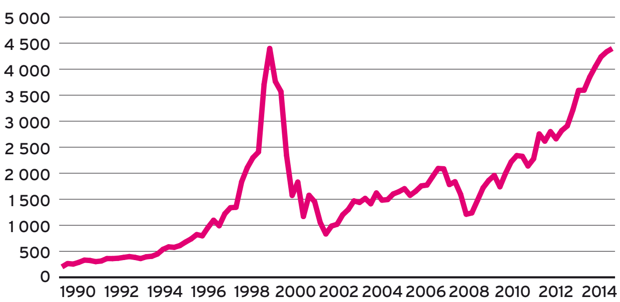
OMX Index 1990–2015

Source: Newsec



NDX Index 1990–2015

Source: Newsec



The reduction was over 5% and was the largest fall in GDP of modern times. In Denmark house prices fell sharply and several Danish banks were forced to apply for emergency aid. For instance Roskilde Bank was on the way to bankruptcy and was bought up by the government.

In northern Europe the Baltics were the region hit hardest by the financial crisis, because the economic expansion and the large granting of credit at the start of the millennium. Loans were used for consumption, the property market boomed and the countries had double-digit growth. There had been large inflows of foreign capital – for example, about 90% of the money lent in the Baltic area was in euros. When the lending was cut off, there followed a deep downturn in property prices, construction activity ceased because of unsold or unlet projects, consumers were either unwilling or unable to buy anything (for example there were large stockpiles of unsold exclusive cars), investments were stifled and as a result so was production. The credit losses that followed went close to destroying the whole banking system.

The Baltic countries then handled the crisis well and got the economies back on their feet quickly after the crisis. They held out against the pressures to devalue their currencies and managed the situation instead by means of reduced wages and reduced public spending – something that has later seemed extremely effective.

The debt crisis

Just when the recovery after the financial crisis seemed to be gathering pace, it became apparent that the problem of debt, which had troubled many countries even before the financial crisis, would have a serious impact on the world economy. The debt crisis had broad penetration into Europe's economies in particular. Greece, Portugal and Spain have large budget deficits with fast-growing government debt resulting in risk of insolvency. This led to increased interest rates on government securities and to credit insurance between these countries and other member states of the EU, especially Germany. This is continuing to create instability on the world's financial markets today. In the long term, emergency loans are needed to prevent these countries going bankrupt. In Greece, where the situation is worst, only short-term agreements about the country's budget targets have so far been agreed with the EU Commission, the ECB and the IMF. Neither

2014 The debt crisis had broad penetration into Europe's economies in particular. In Greece, where the situation is worst, only short-term agreements about the country's budget targets have so far been agreed with the EU Commission, the ECB and the IMF.

the government nor the population are in favour of the demands that are being placed on the country, nor do they appreciate what is needed to get the country's economy going.

Apart from the concern about Greece, the growth forecast for the euro zone is positive, supported as it is by the very expansive monetary policy, the low interest-rate and the purchase of assets. However, unemployment remains very high in many European countries. There is also uncertainty whether there is sufficient political drive to be able to deal with the debt crisis effectively. Competition is hardening in the world and it is not clear whether the competitive strength of the USA and Europe will stand up in the long term against the highly productive and export-oriented growth economies.

2015 The Swedish Central Bank has cut the interest rate to historical low levels. The rate was reduced to -0.35% in July.

Are we facing a new asset bubble?

With the expansive granting of credit that has occurred globally to stimulate growth, there is undeniably much to indicate that we can expect a new devaluation of stock markets and fixed assets. On a daily basis, the financial press reports on topics that could cause the next crisis. If you look at valuations on the world's stock exchanges, it appears rather different – depending where in the world you look. Companies on Sweden's OMX exchange currently have P/E valuations of around 17–27, depending on sector, which are far below the valuations at the time of the IT crash. There is generally a great quantity of capital in the technology sector, and this has been the case for a long time. According to the technology entrepreneur Niklas Zennström, this is creating an obvious risk of a downward adjustment. But you really can't compare the sector with how it looked around the turn of the millennium, because it is far more mature today. There is more to suggest an overvaluation of technology companies in Silicon Valley and in China than in Europe. Among the global technology companies with a market value of at least a billion dollars that have performed best this year, all the top 50 are Chinese. The current P/E valuations of Chinese technology companies average 220, which is similar to what we saw during the IT crash. Furthermore, analysts at Credit Suisse said recently that the probability that a bubble is about to be created on the world's share markets is between 60% and 70%.

All the financial crises in history have been preceded by quite long periods of strong credit growth in combination with low interest rates, which is precisely what we are seeing in the world today. Central banks in the UK, the USA, the euro zone, China and Japan are driving up the volumes of credit with the aim of boosting demand and growth. In Denmark, Sweden and Switzerland the central banks have reduced interest rates to below zero to boost growth. The world's economies are far too weighed down with debt, and asset prices are at artificially stimulated levels. A new crisis will be extremely hard to handle because all the economies have already exhausted their traditional ammunition for fighting crises: asset purchase and low interest rates.

In the search for return, investors are looking for investment opportunities as 'junk debts', a class of assets which is showing record levels of issue. Similarities can be seen to the last financial crisis, when enormous amounts of capital flowed into high-yielding mortgage debt. We are seeing similar trends on the property market; investors are looking outside their regular investment strategy and are buying properties in cities that they normally wouldn't look at – all in the hunt for return.

Sources: Affärsvärlden, Ekonomifakta, SvD, Morningstar, DI, Washington Post, Veckans Affärer, Newsec

GLOBAL ECONOMIC OUTLOOK

Global growth to pick up

We expect global growth to regain speed in 2016 and 2017 after a temporary setback in 2015. The US slowdown early in the year, together with the Greek crisis in the euro area, took some steam out of the world economy this year, but conditions in developed economies are improving. Short-term activity and sentiment indicators point to a pickup in activity, and economic policy conditions, with loose monetary policy and the fiscal consolidation largely over, will remain favourable. Falling energy and commodity prices also boost household purchasing power. The outlook in emerging markets is less rosy. The Chinese economy is struggling with changing the growth model while unwinding large imbalances, and in India confidence in the government's ability to reform is eroding. Brazil and Russia have been hit by the return of falling oil prices when the political situations in the two countries are already strained. Globally, we forecast growth to reach 3.8% and 3.9% in 2016 and 2017, respectively, up from 3.2% in 2015.

Euro area – growth is set to broaden

Growth has come back to the euro area after a temporary slowdown last year. The underperformance relative to the US economy since 2011–2012 can be explained by factors such as differences in monetary policy, more contractive fiscal policy, stronger exchange rate, and the slow process of cleaning up banks. Over the past year, all of these factors have changed. Perhaps most important are the facts that European banks are better capitalised, and credit markets in Europe are in far better shape. As a consequence, credit to households and businesses are growing again in most countries, and at low interest rates.

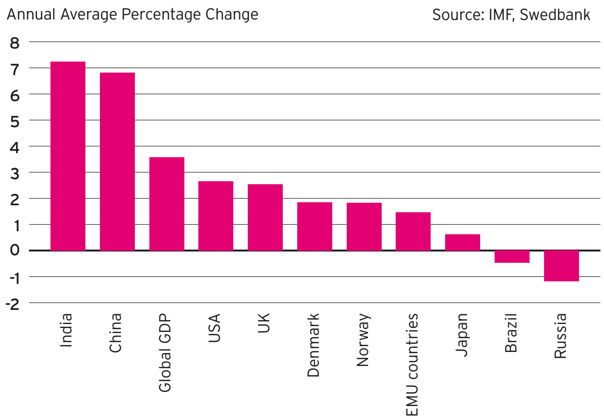
Consumer confidence has risen in most European countries to a high level, and growth in retail sales and private consumption was at its highest in 10 years at the start of the year, helped by lower energy prices, which have boosted household real incomes substantially. Now, unemployment is falling in all but a few countries, and higher wage growth is funding consumption.

In many countries the downturn in investments since the financial crisis has been severe. The euro remains weak by historical standards and provides considerable stimulus to many European companies. Exports from the euro area are growing, and the headwinds from weakening Russian and Chinese markets are compensated for by opportunities elsewhere.

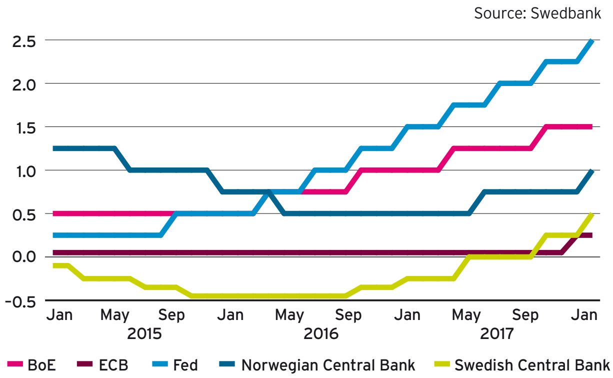
The European Central Bank (ECB) is implementing a large-scale quantitative easing program, by which it purchases bonds and lends to banks. The program has brought down interest rates and weakened the euro, thereby providing a substantial economic stimulus. Over the past months, inflation has stabilised in the euro area as the effects of lower energy prices has faded somewhat. Judging by monthly developments, core consumer prices are rising at a rate of about 1%. This remains, however, well below the inflation target, meaning that the ECB still has considerable leeway. With the level of unemployment still high, it is legitimate for the bank to pursue an exceptionally expansionary monetary policy for quite some time yet.

Faced with the risk of total collapse of the banking sector and exit from the Euro area, the Greek government eventually gave in and stuck an agreement with its creditors implying substantive reform and continued austerity. The Greek economy has suffered severely from the

Swedbank's Global GDP Forecast 2014–2017E



Central Bank Policy Rate Forecasts



»Finland's public finances have worsened resulting in a growing deficit and debt«

conflict, erasing earlier signs of improvement. The only positive conclusion to be drawn is that the remaining EMU economy seems little affected.

Baltics – growth to pick up in the baltics in 2016–2017

The Baltic economies have so far weathered the Russian crisis relatively well, with exporters shifting to other growing markets. Although we do not expect a quick improvement in the economic and political situation in Russia, a pickup in growth in the euro area will support Baltic exports, while gradual EU structural fund inflows will promote investment in the coming years. A robust increase in private consumption will support growth throughout the forecast period, owing to rising incomes and moderate inflation. We thus forecast growth in the Baltics to pick up to around 3% per annum in 2016–2017 from about 2% this year.

Estonia – more growth with less people

Economic growth is decelerating in 2015, primarily due to the weak start of the year; however, we expect the second half of the year to be stronger. Although export and output growth has halted, robust growth of private consumption and net exports will contribute to the growth. The outlook for 2016–2017 will be more optimistic as foreign demand is expected to improve.

Latvia – so far so good, but risks still high

Growth is expected at 2.1% this year, picking up to about 3% in the coming years, with export and investment growth accelerating due to the improving global outlook. Household consumption growth is forecast to remain robust – still rather cautious this year, but a tad more brisk in 2016–2017.Risks to growth still sizable, especially political impediments to trade from Russian side.

Short-term activity and sentiment indicators point to a pickup in activity, and economic policy conditions, with loose monetary policy and the fiscal consolidation largely over, will remain favourable.

+0.25%

EXPECTED GROWTH NORWAY 2015

Lithuania – all's well that ends well
Lithuania's economic developments this year are neither a tragedy, nor a comedy. As expected, the economy has rebounded from the miseries of the first quarter and growth is likely to accelerate further, mainly on the back of strong domestic demand. Yet the hopes of a revival of the trade relationship with Russia have to be put to bed for now – an easing of bilateral sanctions and growth for the previously important trade partner are unlikely until 2017. Prospects in the EU, on the other hand, seem to be improving and provide ample opportunities for growth.

Nordics – external forces dominating

Norway – slowdown continues
The economic slowdown continues in Norway. GDP grew by only 0.2% in Q2, and according to Norwegian Central Bank's regional network, the expected rate of growth has declined to only 0.25% for the months ahead. Oil investments, as well as oil-related manufacturing production, have already fallen close to 15% from the peak, and the decline is set to continue.

Unemployment has increased over the past years, especially along the "oil coast", where announcements of downsizing have become commonplace. In other parts of the country the unemployment rate is still flat or falling. Several indicators confirm that the labour market is weakening, including few vacancies, lower wage growth, and very weak labour demand surveys.

Household demand is, nevertheless, keeping up fairly well and private consumption is now the main driver of total domestic demand. As the economy slows further and unemployment rises, the downside risk to household demand is high following many years of high growth in incomes, house prices and debt. Even now, consumer confidence is weakening and has fallen to levels not seen since the financial crises.

The Norwegian Central Bank has lowered the main policy rate twice in response to the economic slowdown, the last time to 1% in June. The bank's projections indicate a high probability of an additional rate cut this autumn. We believe that the slowdown in oil will be both deep and broad, and that more rate cuts will eventually be necessary. We expect that the rate will be lowered to 0.75% by December and further to 0.5% by the next June. More important, we see the potential for many years of very low interest rates in Norway, and we believe that the rate difference between Norway and its trading partners will continue.

The Norwegian Central Bank has put two other measures into place that may help contain credit growth. First, it has been decided that the countercyclical capital that buffer banks have to hold will increase by half a percentage point, to 1.5% next year. Second, the Ministry of Finance has introduced a new regulation on mortgage lending that limits the extent of loans with low down payments and amortisations.

Denmark – a slow recovery is gaining speed – and raising the prospects of overheating
The pickup in growth in the Danish economy in 2014 was sustained in early 2015. The economy expanded at an annual rate of 1.7% in the first quarter, compared with an overall growth of 1.1% in 2014. Growth was driven by domestic demand, primarily by private sector investments, but also household consumption. The appreciation pressure on the Danish krona has weakened somewhat since the beginning of the year, in particular from foreign buyers. However, interest rates remain low, benefitting mortgage holders and investments alike. Thus, housing prices continue to rice, although they are still far below the levels observed prior to the crisis.

The Danish economy will continue to benefit from low energy costs and a competitive exchange rate. A pickup in external demand from Germany and the UK will support Danish exports. Furthermore, household finances are boosted by a strengthening labour market and sentiments by increasing housing prices and equity markets. We expect annual growth to reach levels of around 2% in the forecast period; this means that resource utilization risks becoming exhausted. The main risk to the Danish economy is thus be overheating: in the labour market through rising wages and, subsequently, domestic prices, and in the housing market by growing shortages and a return of a house price bubble.

Finland – difficult times ahead despite improved outlook
Despite the gradually improving economy in many EU countries and the euro depreciation, the export recovery in Finland is very slow. This is primarily due to the contraction in Russia and to the decline in competitiveness of past years. We expect that the aggregated demand of Finland's trading partners will increase in 2016 and 2017 and contribute more to its export growth. Private investment will increase but not compensate for capital depreciation. Thus, capital stock will decrease, having a negative impact on potential growth of GDP.

Although nominal wage growth has slowed in Finland, real households' disposable income has increased, and consumer confidence has improved. This has contributed to the growth of private consumption. However, current labour costs exceed output and productivity and

»It is our expectation that the Swedish Central Bank will see itself obliged to cut the repo rate by 10 points during the autumn and announce further asset purchases«

are too burdensome for the business sector. Wage growth is therefore expected to be modest and together with decreasing employment, private consumption will be suppressed. We expect real GDP to contract by 0.3% in this year and growth in 2016 and 2017 will be 0.5% and 1% respectively.

Finland's public finances have worsened resulting in a growing deficit and debt. The new government has committed to comprehensive structural reforms addressing pensions, social welfare, health care and municipalities. The tax policy will be reviewed, but without raising the total tax rate. The corporate tax rate will be maintained "at a competitive level", and labour taxation eased. However, the budget deficit is expected to improve only modestly in an environment of sluggish GDP growth, and it will be even more difficult to halt the debt growth.

Sweden – solid growth and a negative policy rate

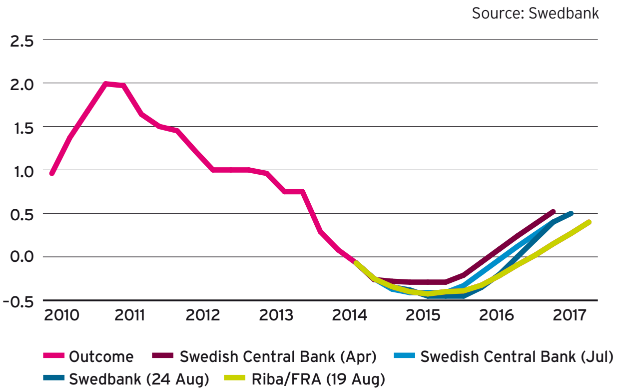
Cyclical developments in the Swedish economy are strong, although with a higher risk scenario. The main growth drivers are domestic demand, helped by good household finances, and rapid demographic development – partly through private consumption and partly through housing investments. Export demand remains relatively subdued despite a weak krona. This also brings significant risks, with uncertainty about emerging economies and declining commodity prices that are affecting major Swedish trading partners such as Norway and Finland (via Russia). The sustained low inflation and low wage growth expectations in the lead-up to the wage negotiations will bring a further easing of the Swedish Central Bank's monetary policy in autumn, while we expect the fiscal policy to remain tight pending a revised surplus target. The housing market surge continues, and there is still a high risk that if it subsides, there may be serious real economy consequences.

We see a strengthening of growth and have revised our forecast for 2015 up to 2.8%. Strong household finances continue to dominate the entire forecast period, and this also applies to the area of housing investments. Exports are being held back by a weak global economy and an external demand composition that is unfavourable to Swedish industry. The investment climate is weak, and declining commodity prices are affecting both Swedish exports and major recipients of Swedish exports. It is our expectation that the Swedish Central Bank will see itself obliged to cut the repo rate by 10 points during autumn and announce further asset purchases, while the government imposes a tight budget. A rebalancing of the economic policy is called for and would benefit the Swedish economy.

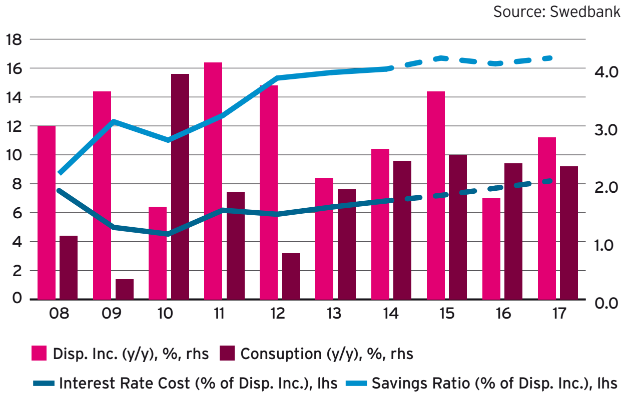
The outlook for the Swedish economy over the next two years remains good, with a growth rate of about 3%, but at the same time it has to be said that the risks are increasing, both domestic and external. However, households continue to contribute most to the cost of increased debt and exposure to rising interest rates. The Norwegian economy is being affected by the falling price of oil, and as the country is one of Sweden's largest trading partners and workforce recipients, this also affects Swedish economy. This highlights the challenges presented by rapid demographic change in Sweden. Our assessment of inflation growth is affected by energy price trends, but also by increased global competition created by technological development, notably in the form of digestion. This impedes the Swedish Central Bank's target achievement, and we anticipate that the repo rate will remain low throughout the forecast period.

Source: Swedbank Economic Outlook, August 2015

Sweden: Repo Rate Path (%)



Sweden: Household Consumption & Savings



»It has been clear to see that the property market has been extremely cyclic, with peaks and troughs roughly every ten years«

THE SWEDISH PROPERTY MARKET
FIFTEEN YEARS OF CYCLIC PATTERNS

For property investments in Sweden, fifteen years used to be a short time-horizon. Swedish institutions in particular rarely sold any properties and were long-term owners. They were therefore relatively unconcerned about 'temporary' upturns and downturns on the rental and property market. The Swedish property market was also poorly analysed up to the mid 1980s, and its turnover was relatively low. In more mature, liquid and transparent markets, however, such as the London market, where trends were analysed since the beginning of the 20th century, it has been clear to see that the property market has been extremely cyclic, with peaks and troughs roughly every ten years. In Sweden too the same general ten-year cycles can be seen from the 1980s onwards, with peaks occurring at around 1990 and 2000 but with the most recent peak occurring after just eight years, in 2008.

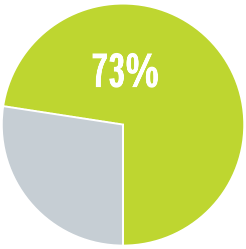
All the cycles have followed the same general pattern, even though the underlying drivers of upturns and downturns have differed. After a long upward phase, which then accelerates with rapidly rising property values at the end, a dramatic drop in transaction volumes takes place; this is, followed by an intense and relatively short fall of property values before the market bottoms out and begins to recover. With long upward phases and short periods of falling prices, the good times clearly predominate in purely objective terms. For many people who have been active in the industry over long periods, however, the feeling may be just the opposite, with a perception that the industry is either undergoing a crisis, just pulling out of a crisis or approaching the next crisis.

Over the last fifteen years the market has experienced two clear peaks, in 2000 and 2008, and two clear troughs, in 2003 and 2009. The positive market trend that we are in now has lasted for six years and in general has followed the same pattern as before, with rising rent levels, especially in the major cities, steadily increasing construction activity comprising both new building projects and rebuilding of the existing stock. The transaction volumes are increasing at the same time as competition for the attractive properties coming onto the market is becoming ever-greater. Market yields are declining and property values are rising faster and faster.

Historically, activity among foreign investors has increased towards the end of the cyclic periods. In the last few years the share taken by foreign capital has grown markedly and is now up at 30% of the total transaction volume, compared with 18% in 2014 and 14% in 2013. In 2007 – the year before the last major crisis – the share of foreign capital was a full 59%. Taking the view that the market is now nearing the end of a cycle again, Newsec believes that the share of foreign capital will continue to rise on the property market in 2016, when yet more opportunistic foreign players may begin to come in. Our fifteen-year period began in 2000 with strong GDP growth in Sweden and the other Nordic countries. Office rents in Stockholm were at a peak after a very strong rise in the years before the millennium, driven by the telecom and IT sectors. Although the telecom and IT companies accounted for a very small share of office lettings in the CBD, it was these companies that drove rental rates. The market rent for modern offices stood at SEK 5,000 per m^2, but there were also individual top rents at around SEK 6,000 per m^2 level. Vacancies continued to be low – 4% in the CBD – despite a high level of new production in the Stockholm region. However, what was already apparent in 2000 was that a lot of the office space that was let had a low degree of utilisation. For some years the IT companies had been leasing offices for planned future expansion – an expansion that never happened, so that the office space was unused. Office rents had also risen over a long period in the other Nordic capitals and also in Gothenburg and Malmö, but not as fast as in Stockholm.

The downturn in the economy, with low GDP growth between 2000 and 2003, hit the previously expanding IT sector first. This had its greatest impact on the office rental market in Stockholm. The vacancy rate rose substantially, mainly in the CBD to levels round 10% and in IT-dependent districts such as Kista. Top rents fell markedly to levels of SEK 3,700 per m^2. The office rental markets in the other major Nordic cities remained more stable over the same period, with a lesser and in particular a later fall in rents. On the transaction market in Sweden the volume of transactions fell strongly, from a volume of just over SEK 60 billion in 2000 to SEK 40 billion in 2002. The stock market fall in the wake of the IT crisis resulted in many institutions becoming overburdened with properties and therefore active on the selling side. Prime office yields had already begun to rise before 2000 as a result of lower expectations of continued strongly rising rents. The market had simply realised at an early stage that it was nearing the peak of the rent cycle. In the years 2000 to 2003 prime office yields in Stockholm rose from 6% to 6.25%.

In retrospect we can say that the fall in value on the property market was very moderate. The Nordic property markets and especially the Swedish market had become steadily more interesting to international investors since the start of the new millennium. The transaction volume in Sweden increased strongly



FOREIGN INVESTORS

SWEDEN 2003

to about SEK 85 billion in 2003, with international investors as buyers of a record-high 73%.

The economies of the Nordic countries performed well between 2004 and 2007, with relatively high GDP growth, which had a positive impact on the office rental markets in the major cities. The most striking development was in Oslo which in the course of 2006 saw market rents rise by around 30%. GDP growth fell back a little in 2007 and 2008, but rent levels in the main office rental markets continued upwards to a peak in 2008, with levels of SEK 4,400 per m^2 in Stockholm and new record levels of NOK 3,800 per m^2 in Oslo. Transaction volumes increased during the period 2004–2008, with annual volumes on the Swedish market at levels of SEK 130-150 billion in the later years. International interest in the Nordic markets remained strong until the first signs of the global financial crisis appeared in 2008.

The global financial crisis hit the Nordic economies too – in 2009 GDPs fell in all the Nordic countries. However, in a global perspective the Nordic countries managed relatively well. On the property market it was primarily many heavily mortgaged buildings that faced major problems. Even before this, small margins that allowed little scope for carrying out essential tenant improvements and reinvestments, together with a combination of rising vacancies, rising interest rates and a freeze on the availability of further loan financing, meant serious problems for heavily mortgaged property owners. Scattered (and therefore hard-to-manage) property stocks became very hard to sell, and the market values for properties and property stocks in secondary locations fell dramatically.

The transaction volume on the Swedish property market fell to a historic low of SEK 30 billion in 2009. International buyers vanished almost entirely. Demands for offices, and the office rental markets in the major cities, were also hit by a downturn, with falling market rents and rising vacancies. Nevertheless, the fall in prime office rents in Stockholm CBD was relatively moderate and bottomed out in the course of 2009 at a level of around SEK 3,800 per m^2 before turning upwards again.

Since 2009 activity on the Nordic transaction markets has increased in step with the economic recovery after the global financial crisis, rising from a total of around EUR 8 billion to over EUR 30 billion in 2014. In Sweden the transaction volume reached SEK 150 billion in 2014, a similar level to earlier record years. Stable economic growth together with historically low interest-rates has led to a combination of rising demand for premises and falling yields. Prime office rents in the major Nordic cities have risen by between 20% and 30% at the same time as prime office yields have generally fallen by about 150 points to historically low levels. There are many indications that the 2015 property year may produce record-high total returns and very high transaction volumes after a historically long rising phase.

Historic patterns of the property market show a cyclic sequence of peaks and troughs every eight to ten years. There is also a clear pattern showing that the share of foreign capital increases at the end of the cycles. According to these historical trends, the market should now be in the final phase of a cycle, and market values should begin to fall next year before reaching its bottom in 2017. Newsec does not foresee any drastic crisis on the market, but we do believe that a cooling of the transaction market is likely.
The reason that we are not forecasting any deeper crisis is today's low-interest-rate regime. Interest rates currently stand at their historically lowest-ever level after a falling trend over the last fifteen years. The Swedish Central Bank is indicating that it sees no lower limit to interest-rate reductions, and that it will continue to reduce the rate to the level that will achieve its inflation target and where growth will gather pace. This suggests that we will continue in a low-interest-rate climate for some time to come, since we are currently seeing few indications that the Swedish economy is beginning to gather any real momentum. Historically it is the fast and major hikes of interest rate that have given rise to deep crises on the property market. Property companies (usually highly leveraged) have then been substantially burdened by a large negative net interest income, leading to suspended payments. As a result, bank lending has fallen sharply and liquidity has vanished from the market. At current interest rates, this is still a long way off. Possibly some opportunistic property companies with low differentiation might end up in difficulties, but the real-estate sector as a whole is well capitalised and ready to face the future. In addition, there is an enormous supply of capital. Both Swedish and foreign pension funds are increasingly investing on the Swedish property market. Risk-adjusted returns are more competitive on the Swedish market compared to other markets in Europe, further increasing the interest from international capital.

»Newsec does not foresee any drastic crisis on the market, but we do believe that a cooling of the transaction market is likely«

THE SWEDISH PROPERTY MARKET TODAY

RECORD HIGH TRANSACTION VOLUMES

The investment market

So far this year the Swedish transaction market has been extremely strong with 180 deals (>SEK 100 million) and over SEK 83 billion invested in property all over Sweden. The largest transaction of the year so far was the purchase by the American company Blackstone for around SEK 9.5 billion. This transaction contributed strongly to the high transaction volume for the period. In the same period 2014, which was a record year, 160 deals was made and SEK 72 billion was invested in property all over Sweden.

One factor contributing to the continuing strength of property in 2015 is the low interest rate, which the Swedish Central Bank has continued to cut. The rate was reduced to -0.35% in July. With an uncertain environment, monetary policy needs to be more expansionary to ensure that inflation continues to rise towards the Bank's target of 2%. The low-interest-rate environment is therefore expected to continue this autumn, which will sustain the good financing climate. Good access to financing and lack of high-yielding alternatives are other factors contributing to a high interest in property. These factors will lead to continued high transaction volumes in the two last quarters of 2015.

An assessment of the first two quarters of 2015 shows that private and listed property companies formed the largest groups of market players in terms of their acquisitions. Together they have accounted for nearly 63% of the transaction volume. On the sales side, property funds and private property companies have been the largest sellers, accounting for 65% of volume. The fact that properties have been a good alternative to other types of stock market investment means that listed property companies are in a good investment position. The private property companies have been active on both the selling and buying side, the explanation being that many have chosen to refine their property portfolio during the past year. Swedish institutions have been net buyers for several years and are still in general short of property holdings.

There has been a continuously high interest in properties in Sweden's smaller regional towns and cities. So far this year they have accounted for 45% of transaction volume. Stockholm has dominated geographically with 42% of the volume, although only three of the ten largest transactions actually took place in the Stockholm area. The largest transaction so far this year was, as mentioned earlier, Blackstone's purchase in July of 22 Swedish properties in various segments (totalling 659,000 m^2) for SEK 9.5 billion from the Norwegian company Obligo. This transaction contributed strongly to the high transaction volume for the period.

Gothenburg has strengthened its market share during the first two quarters of 2015 while Malmö has lost share since February this year. The largest transaction in Gothenburg so far was Atrium Ljungberg's purchase of three retail properties for SEK 897 million. In Malmö the largest transaction was Wihlborgs' purchase of two office properties for SEK 850 million.

In the first half of 2015 office properties have been the dominant investment category, taking nearly 30% of the market. There is also a continued strong interest in retail properties. This year's second-largest transaction was Svenska Handelsfastigheter's purchase of 44 retail properties from Areim for SEK 2.7 billion. The properties are spread throughout the country and have a total lettable area of 180,000 m^2. Retail properties account for just over 20% of the total transaction volume in 2015, which makes this the second-largest segment. Residential properties are now the third-largest segment with 19%, their lowest placing since 2011.

The share taken by foreign investors reached 30% for the year up to July, compared with 15% for the same period last year. One factor contributing to this figure is the American company Blackstone's large purchase in July. The number of foreign investors has been low in recent years, mainly because of low yields and off-market deals which made it difficult for them to enter the market. However, since 2014 the interest from foreign investors has increased and is now expected to remain strong.

The office market

Newsec estimates the total office stock in Greater Stockholm at approximately 12 million m^2, mainly in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby. Stockholm CBD is considered to be the most attractive office area, with a total stock of about 1.9 million m^2, while Stockholm Inner City excluding the CBD has an office stock of about 4.3 million m^2. Many larger companies have recently relocated to new office spaces outside the Inner City, often co-locating several offices and setting up new operations in the inner suburbs. Recent decisions to expand the infrastructure and public transport will be central for the further development of Stockholm, since opportunities and the ability to attract people are linked to good infrastructure. Stockholm is more or less divided into two areas, with a large proportion of offices located in the north. The new Citybanan main-line rail link will have a positive impact on the CBD office area of Västra

»In recent years public properties have become one of the property market's most interesting segment«

City when it is ready in 2017. The new line will increase passenger capacity through the Inner City, with two new stations at T-Centralen and Odenplan. Two areas that will strongly benefit from improved communications are Hagastaden and Arenastaden, just north-west of the Inner City, where two of Stockholm's largest urban development projects are currently under construction.

Over a short period of time the construction of new office space in the Stockholm area has changed dramatically, and is now focused on specific clusters in municipalities outside central Stockholm. Many of these areas are located in northern Stockholm, which has fast and convenient communications to both the Inner City and Arlanda Airport. The forecast final figure for new office projects in 2015 is 68 500 m².

There are few speculative office-building projects scheduled for completion in the next few years. However, NCCs Torsplan and Skanska's Stockholm Seaside are two such projects. Torsplan will provide 35 000 m² and is planned to be completed in 2016. The construction of Stockholm Seaside started in late 2014 and will provide 14 000 m² of office space after its planned completion in 2016.

The recent relocation of several large companies has greatly reduced leased space in Stockholm CBD in the short term. However, the demand for offices in Stockholm CBD is still high, which results in today's low vacancy rate of about 4.5%. This in turn has led to a number of new development and rebuilding projects in, or adjoining, the CBD. One notable rebuilding project is Gallerian, where AMF has major plans for Swedbank's old premises. The rebuilding of Gallerian is planned to be completed during the spring of 2018. Vasakronan is also planning a total refurbishment of Klara C, which will be renovated and modernised up to 2016.

Future relocations and refurbishments have not yet affected the vacancy rate, since many moves will take place during the next couple of years when the new projects are being finalised. Mästerhuset, a large rebuilding project, is planned to be completed this autumn and will comprise 30 500 m² of office and retail space. Mästerhuset is fully let. The expected vacancy rate for office spaces in Stockholm CBD in 2016 is about 4%.
The average rent level for office premises in Stockholm CBD is SEK 4,900 per m², and Newsec expects the market rent to rise to SEK 5,200 per m² by the end of 2016. This is a result of the low supply and high demand for modernised office space in the CBD. The rise in market rent is expected to continue into 2018.

The retail market

Retail trade in Sweden is showing positive growth so far this year, and the retail property segment accounts for 20% of the total transaction volume in 2015, compared to 13% in 2014. Swedish households are well consolidated financially, and with a continuing low interest rate and low inflation the desire for consumption is high. The Swedish economy has moved forward stably, and household consumption will be an important growth engine in coming years. Consumption in Q1 2015 grew by 5.3% compared with Q1 2014, which is above the full-year forecast of 3% from HUI (the Swedish Retail and Wholesale Trade Research Institute).

The population of Greater Stockholm is growing fast, and ongoing urbanisation will heavily affect demand in all the major cities. The population of Stockholm is expected to grow by 1.6% a year (35 000 to 40 000 people a year) up to 2022. The growing population along with the rise of e-commerce has led to fierce competition between different types of shopping destinations, which make factors like the location and quality of premises increasingly important in attracting consumers and tenants.

Shopping centres in Sweden are increasing in size, and their premises – especially in the major city regions – are being let at new top rents. Newly built and newly renovated shopping centres in attractive locations have no problem in filling their vacant spaces, and top rents in the best regional shopping centres outside Stockholm are now on a level with top rents in the CBD. As much as 2.8 million m² of new retail space is currently planned all over Sweden. Assuming that all these projects come to fruition, this means an increase of around 30% of the existing retail space. To achieve profitability in all these new stores and shopping centres at a time when e commerce is taking an ever-greater market share will be a huge challenge for the retail sector, and the view about how large shopping centres should look and be developed has changed over the years. These days a good centre does not depend only on what it sells, but on the destination itself and the experience it offers, in which good restaurants, cafes and service play an important part.

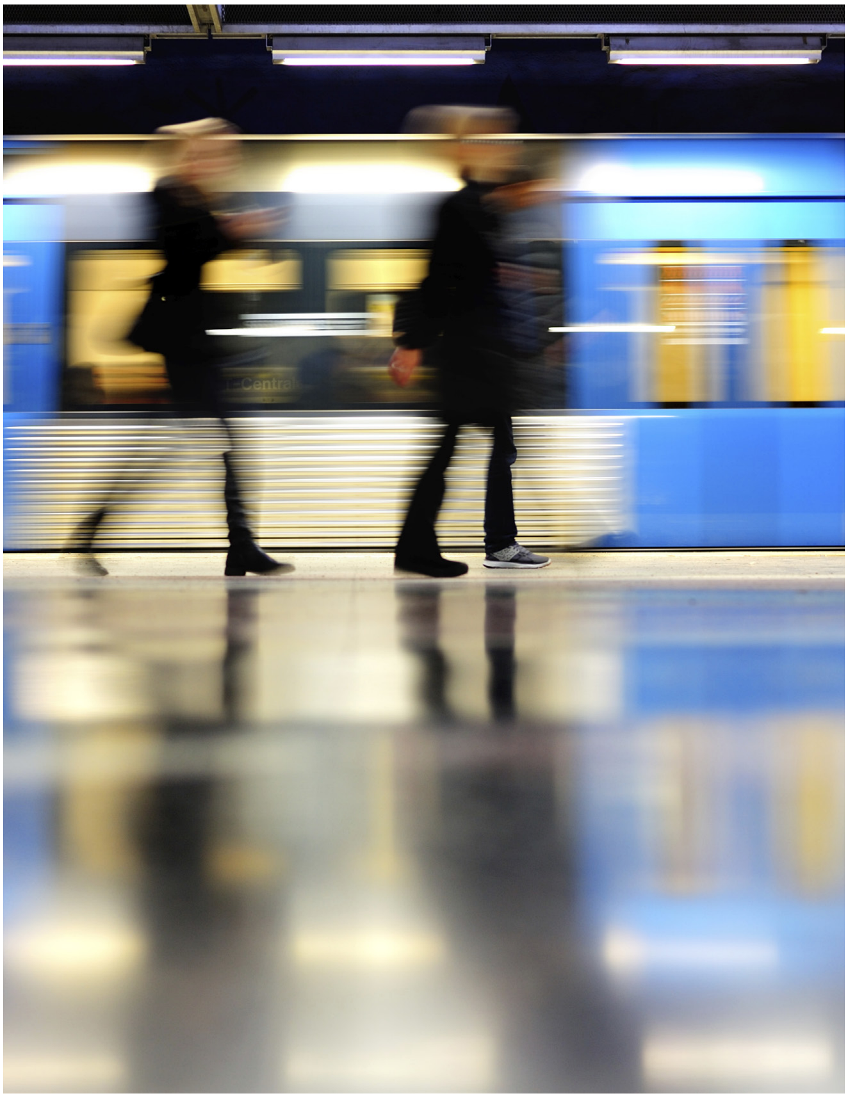
In November Stockholm's latest addition in large retail centres will open. Mall of Scandinavia is located in Arenastaden and will contain 250 stores and restaurants in an area of more than 100 000 m². Meanwhile one of Stockholm's oldest department stores, PUB's building at Hötorget in the middle of Stockholm, is being rebuilt as a hotel and will open as the Scandic Haymarket Hotel in 2016. In Greater Gothenburg there are plans for developing approximately 200 000 m² of new retail space. New development in Greater Malmö is expected to be substan-

4.5%
VACANCY RATE
OFFICE SPACES STOCKHOLM CBD, 2015

tially lower, mainly because several large projects have been finished during the last two years.

The public property market

'Public properties' has come to be the generic name for properties with public financing that provide functions such as education, healthcare, homes for the sick and elderly, the judicial system and other public-authority services. Public properties are a relatively new segment whose ownership a few decades ago was virtually always in the hands of the government, county councils and local municipalities. In recent years, however, public properties have become one of the property market's most interesting segments, which today is shared with a number of private property owners who together own about 30% of this market area. The segment is characterised by stable yield in relation to risk. With the government or a county or local council as the principal, the tenants are highly creditworthy and long leases of up to 25 years are normal practice. This can be compared with other commercial property segments where a normal length of lease is three to five years. Furthermore, the occupancy rate is higher than for other property segments, which is partly because as a rule they are more adapted for special purposes than, for example, office premises. A major adaptation usually also results in higher rent levels and longer lease durations.



The Swedish market for public properties gathered pace after the deregulation that took place some 20 years ago. During the period 2008–2013 the market had an annual turnover of around SEK 10 billion, with a large proportion of the volume coming from sales of privately owned properties. The growing market has resulted in the emergence in recent years of property companies specialising in various forms of public-service operations, such as Hesmö, Hemfosa and Offentliga Hus. Pension funds have also made investments in public properties because this is a market that suits them well by virtue of the long-term investment horizon and stable yield.

The transaction volume on the market for public properties is expected to increase further as a consequence of an expected selling-off of public-property stocks by local councils, this because many councils are in need of capital for the maintenance of their existing stock.

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NORWAY
A RECORD-BREAKING YEAR

Norway – the past 15 years
In the past 15 years the market for commercial property has gradually become more professional. Increased professionalism has led to an increase in the availability of market information, and the market has become increasingly more competitive.

Through the 2000s commercial property has become an investment available to all, through various different structures. Property funds experienced strong growth from 2005 to 2007, during which NOK 27 billion of equity was raised, which was then leveraged 75–80%. However property funds then experienced a dramatic decline throughout the financial crisis. The non-professional investors wanted out, which was not possible because the money was tied up for 10–15 years. Furthermore the liquidity in the second-hand market was bad and trading involved very steep discounts often above 30%. 2014 really saw the death of property funds, when for instance Storebrand, Fortin and Aberdeen all sold off their entire funds before exit. These days property is more often structured as syndicates and 'club deals', with far fewer participants, all of whom are professional investors.

The volatility of the stock market and falling interest rates have led to an increased interest in commercial property. Throughout the 2000s more and more capital has been allocated to real estate. Particularly after the financial crisis in 2008 we have seen a significant reallocation of capital from the stock and bond markets to real estate. In combination with record low interest rates (for instance in the 10-year swap which has fallen dramatically during the past five years, along with falling bank margins), this has resulted in a record high yield-gap.

The 2015 transaction volume may well go as high as NOK 90 billion, a record-breaking year. In 2002 the volume was NOK 8 billion and in 2006 it had risen to NOK 68 billion, before plummeting to NOK

»The 2015 transaction volumes may well go as high as NOK 90 billion, a record-breaking year«

15 billion in 2009. Over the last few years it has steadily increased once again.

The investment market

The year has started well for the Norwegian property market. The transaction volume continues to break records. Up to mid-August we have recorded transactions totalling NOK 55 billion, which compares with a volume of NOK 22 billion for the first half of 2014.

Furthermore, a number of large deals are currently in play, including the Salto portfolio and Strandveien 4–8. If the investment climate remains unchanged the total transaction volume for the year will probably approach or exceed NOK 90 billion.

As anticipated, KLP ended up buying Aberdeen's Real Estate Fund 2. The properties in the portfolio are located in Oslo and Trondheim – cities where KLP already owns a substantial amount of real estate as well as having an asset management presence. The transaction sum has not yet been made public; however it is believed to be higher than the appraisal value and probably as high as NOK 3.8 billion.

Q2 2015 showed a trend of Norwegian investors with a long-term perspective deliberately not buying. Continuously increasing property prices and falling yield levels are seemingly inconsistent with the negative forecasts about vacancy rate and rent levels. This is most likely also why some of the major players such as ENTRA, NPRO, DNB Liv and Oslo Areal have taken advantage of the strong market conditions to offload non-strategic properties.

The proportion of international capital is increasing, and so far this year foreign investors account for 50% of the transaction volume, compared with just 23% last year. However Norwegian investors still account for more than 90% of the transactions and provide the liquidity in the market. Other Nordic investors are increasingly entering the Norwegian market, with companies such as Citycon and Hemfosa accounting for a large share of the transaction volume.

The office market

In contrast to the transaction market, the Norwegian office rental market currently has rather low activity. It is also characterised by declining rentals and rising vacancy rates. In Oslo the vacancy rate in July 2015 was 8.5% and rising. We expect the vacancy rate to increase to 8.75% in late 2015 and 2016 and then stabilise at this level.

Norway's economy is highly exposed to the oil and gas industry, and the uncertainty in the office rental market is closely linked to the situation in the oil industry. The fall in the oil price has resulted in many projects being cancelled or delayed. Companies in the industry are focusing on cost reductions, resulting in major staff cutbacks. More than 155,000 Norwegian jobs are directly or indirectly connected to the oil industry, and so far more than 30,000 people have been laid off as a result of the requirement to cut costs. The major cutbacks have in turn affected the property market, resulting in lower rental prices and increased vacancy rates.

In general, foreign investors seem unconcerned about the situation in the rental market. They are continuing to purchase commercial real estate at record low yield levels. The prime yield in Oslo is currently at an all-time low of 4.25%. And even though the activity in the rental market is low, it has definitely not collapsed. It just means that the decision-making processes are longer and tenants focus more on flexibility in their lease agreements. Average top rents are around NOK 4,500 per m^2 in Oslo CBD and around NOK 3,000 per m^2 elsewhere in Oslo.

Oslo is a city in transformation, and new office buildings appear frequently. One of the largest current construction projects is Diagonale, which will provide 15,000 m^2 of office area when completed in December 2017. The 9-storey office building is situated in Bjørvika, which is now considered as Oslo's 'second CBD'. Among others, Visma, Deloitte, PwC, E&Y and DNB are all located there.

The retail market

The commercial property market in Norway is best described as increasingly dominated by foreign players, with retail property an emerging asset class. The retail segment represents about 40% of the transaction volume so far in 2015, although we expect this percentage to fall during the rest of the year. In 2014 the retail segment represented only 12% of the total transaction volume.

The acquisition of the Sektor shopping-centre group by Citycon of Finland for NOK 12 billion is by far the largest transaction in Norway this year and the main reason for the 40% figure mentioned above. Other large transactions in the retail segment are Scala's purchase of four shopping centres worth around NOK 1 billion, and the sale of the Salto portfolio. The latter has not yet been finalised, but is estimated to be worth NOK 5 billion.

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FINLAND

STILL RECOVERING FROM THE FINANCIAL CRISIS

The last fifteen years of the Finnish property market can roughly be divided into three eras: a Pre-Internationalisation Era from 2000 to 2005, a Cross-Border Boom Era from 2006 to 2008, and a Financial Crisis Era from 2009 to 2013. Since then Finland has seen more or less an after-shock recovery from the earlier ups and downs.

In the year 2000 Finland was economically on a good track alongside the rest of Europe. Finland had taken the euro into use as its accounting currency in January 1999 and was preparing to adopt the euro as its main currency. At that time the main economic driver came from the new ICT (Information and Communication Technology) cluster, with Nokia as the main driver. Nokia´s share of Finland's GDP was calculated at about 4% at that time. The technological growth had started in the mid-1990s as the Internet and mobile phones became more popular. By then the aftermath of the recession of the early 1990s had been forgotten.

The ICT cluster also had an effect on the office rental market. The rising Information and Communication industry changed the preferences of office users and created a new customer segment for office usage. In the seven years 1995 to 2001 the share of office usage taken by the ICT sector doubled and many new office development projects were put in hand for the many new companies. New and flexible office buildings were needed for these developing ICT companies, and vacancy rates fell as the personnel in the companies increased. At the time there was even talk of a shortage of qualified employees.

As the ICT sector started to cool down vacancies began to increase and many of the speculative building projects were left almost without tenants. Partly because of the oversupply the Helsinki Metropolitan Area had high vacancy rates. The oversupply from the exaggerated demand also had an effect on the rents in certain areas. At the same time the retail sector was strong, the Finnish economy was strong and employment was at a good level. The residential market also seemed to be going well even though not many transactions took place in this asset class.

The investment market

Between 2000 and 2005 the real-estate transaction volume in Finland ran at a little over EUR 2 billion a year and was mainly dominated by domestic investors. The investment volume then gradually grew as cross-border investments increased. In 2006 the transaction volumes increased even more, with capital flowing from both domestic and cross-border investors. As the market became more internationalised the shortage of properties to be sold was the only limit to the transactions made. Domestic investors began to be more interested in indirect real-estate investments and the growing number of foreign investors made investments using high leverage. The rental market also seemed stronger and vacancies started to decline for the first time in years. The future outlook was very positive, and this positive atmosphere stimulated a new cycle of office and other property construction projects.

The property transaction market peaked during 2007, even though the worrying news from overseas about the coming financial crisis was obvious by then. In 2008 the activity continued despite the fact that the transaction volume was decreasing elsewhere in Europe. Activity on the Finnish real-estate transaction market has tended to follow European activity with a delay.

After the shock of the financial and economic crises the Finnish transaction market fell back for a few years. The number of international investors was moderate and the transaction volumes returned to their levels of before 2005. The shadow of the crises affected the rental market as well. Vacancies started to grow and companies started to become more cautious about leasing new space. The Finnish economy fell in pace with other countries and the waiting for the recovery began.

Signs of a gradual recovery started to appear in 2013 and 2014. Activity on the property market started to increase and has been sustained during the first half of 2015, even though the economic indicators are still at moderate levels compared with other EU countries. Once again Finland has followed the European markets with a time-lag.

A shortage of good investment targets and the low yield levels in the main European markets have driven investors to seek higher yields in Finland. International investors have begun to return to the property markets and have displayed the so-called ABBA phenomenon. Investors have started to seek B-rated targets in A-rated areas and A-rated targets in B-rated areas. The demand for these properties was almost non-existent a few years ago.

In the first half of 2015 the transaction volume was nearly EUR 3 billion, compared with a volume of EUR 1.6 billion for the same period of 2014. Nearly one-third of the total volume came from retail transactions. Large-scale ownership arrangements often involving institutional investors have been part of the increasing transaction volume. For example, the Finnish mutual pension insurance company Ilmarinen together with the large retail wholesaler Kesko and Sweden's AMF Pensionförsäkring set up a new property investment company with a EUR 650-million retail portfolio. Owner-occupiers are also continuing to

»In the first half of 2015 the transaction volume was nearly EUR 3 billion, compared with a volume of EUR 1.6 billion for the same period of 2014«

ease their financial burden by seeking sale-and-leaseback arrangements. For instance, the state-owned Finnish postal group Posti has recently sold a logistic portfolio forward.

The office market

In the Helsinki Metropolitan Area, office markets have remained in a challenging state and the tenant's position in negotiations is strong. The vacancy rate has continued to increase and the HMA currently has over 1 million m^2 of empty office space. At the same time, many organisations are discussing the efficiency of their office usage. The more efficient use of space started to increase after 2000 among ICT-cluster companies and continues today. However, the average use of space is still far above that in many European countries. In Finland the average allocation of office space is between 23 and 25 m^2 per employee, whereas with some companies in other countries it is close to 15 m^2 per employee. At present the amount of empty office space in Finland is not declining but rather increasing.

Those property owners who are brave enough to provide new and efficient office solutions will be on the winning side in the future. The main concerns for office users are still the location and good connections to public transportation. New rail projects in the HMA will change the rankings of the available office buildings. The development projects and office buildings near the new stations have already shown good demand. The difference between prime and non-prime office buildings will increase in both rental markets and transaction markets.

Continued positive transaction market

International real-estate investment capital is continuing to seek good targets in Finland. In the first half of 2015 the active investors were Swedish and German investors. Investments in rental apartments are still in favour, as they have been ever since 2000, with ups and downs. Competition in this asset class has increased available yields to challenging levels. Our forecast is that the transaction markets will remain active even though the state of the Finnish economy will continue to cause uncertainty in making investment decisions. Finnish yield levels are currently at competitive levels compared with other Nordic countries, and investment capital is therefore expected to flow into Finnish markets.

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DENMARK
THE DEMAND FOR PRIME OFFICE PROPERTIES WILL REMAIN VERY STRONG

The investment market
Since the turn of the millennium, the Danish market for commercial property has seen a number of dramatic changes that have contributed to moulding the professional market we see today. Looking back on the past 15 years, one event in particular had a profound impact on the Danish commercial property market. That was the financial and subsequent economic crisis. It therefore makes good sense to discuss the market in terms of 'pre-crisis' and 'post-crisis'.

Before the onset of the international crises, which did not really feed through to the property market until 2007/2008, the Danish commercial property market was characterised by strong and mounting activity, fronted by domestic investors in particular. Looking back, this activity level was hardly justified by actual market conditions and sound reasoning. The volume of commercial property transactions more than doubled between 2000 and 2006, when it peaked at around DKK 65 billion. The volume then dropped progressively to an all-time low of some DKK 15 billion in 2011. Since that year, annual transaction activity has steadily picked up again, today standing at some DKK 30–35 billion, which is believed to represent a more realistic long-term equilibrium.

Multiple factors contributed to this course of events, but one very significant change was the elimination, during the crises, of second-mortgage financing. This saw the exit of a relatively large group of private investors investing via limited partnerships – a company structure virtually non-existent in today's market. Limited partnerships are typically high-leverage and tax-driven companies, and the vanishing of a large, tax-motivated buyer segment has benefited developments in the Danish commercial property market.

One factor that makes today's post-crisis commercial property market less susceptible to changes than the pre-crisis market is the boost in equity capital. This was mainly due to a more restrictive lending policy in the financial sector, imposing higher equity requirements and thereby bolstering the investor community for property investment, which has tended to foster much more solid market fundamentals.

This also opened up the Danish commercial property market to a new type of investor, and international investors in particular were quick to make an entry. In a climate marked by uncertainty and substantial financial-market volatility, Denmark achieved 'safe haven' status in investment-market terms. International investors led increasing activity which affected more or less all segments of the investment property market: residential, office, retail and logistics. At the same time, Denmark offers highly favourable terms and conditions of mortgage financing compared with other countries. Thanks to very low interest rates, it is possible to achieve a high return on equity from mortgage-backed property investments – which also appeals to international investors.

Overall, the Danish commercial property market has become much more professional and transparent in the past 15 years. This has spurred demand for commercial property in Denmark. While this trend is expected to continue, the challenge today is that most investors covet the same products. Since the supply is limited, net initial yields have started to drop in several prime segments, with the increase in transaction volumes unable to match the pace at which demand is growing.

»The Danish commercial property market has become much more professional and transparent in the past 15 years«

In 2015 we believe that demand for prime office properties will remain very strong, and the increase in activity is likely to feed through to secondary markets. Because of the yield compression seen across all segments, investors may adjust their risk profile in order to secure profitable returns. This trend will follow an improvement in the occupational market as overall economic growth momentum continues, albeit at a moderate pace. Occupational demand for some secondary properties may reignite investment activity in the secondary market.

The office market

Overall, market yields have been falling. Although the trend for the past ten years has been relatively flat, the supply and demand imbalance in the market for prime office property has driven yields down to 4.50% in 2015. Because of these low yield levels and investors' continued massive placement requirements, we see signs of investors adjusting their risk profile, zooming in on more secondary office properties in order to achieve higher net initial yields. We expect this trend to continue during the next couple of years.

For the past 15 years prime office rents have remained exceptionally stable, which is partly because Copenhagen office tenants are more or less indifferent to their office location. However, the main reason is the emergence of large-scale development areas in Copenhagen and its environs, which has increased office supply in step with demand so as to curb rental growth. Weak demand has also put downward pressure on rent levels, in some areas widening the price gap and segmentation between up-to-date, space-efficient office premises and older inefficient or inflexible premises. The prime office rent in Copenhagen currently stands at DKK 1,600 per m^2, excluding taxes and operating costs.

The retail market

Between 2000 and 2015, the Copenhagen prime (high-street) market has proved a highly attractive segment, generally associated with very low risk. Yield requirements have continued steadily downwards since 2000, and today international investors with a strong investment appetite dominate the high-street market. The surge in demand has driven down yield levels, which are now at an unprecedented low. However, the low yields do not seem to put off investors, and further yield compression is predicted in the short and medium term.

At the same time, the supply of high-street units is inherently inelastic, and mounting demand has put upward pressure on retail rent levels throughout the period. We believe that this trend will continue in the years ahead, although at a slower pace.

Building activity

Between 2000 and 2015 the scale of new building in the Copenhagen area has fluctuated, since new construction activity is closely correlated with socio-economic developments.

From 2000 onwards new building boomed, and in 2006 the volume of completions reached an all-time high. Between 2000 and 2006/2007, many new districts evolved both in Copenhagen and on its outskirts. For instance, development and redevelopment activity started on the waterfront at Islands Brygge and Sydhavnen (the south harbour) and also at Ørestad. Construction activity was largely speculative, and residential new-building schemes in particular were started with a view to divestment of owner-occupier flats. As a result, construction activity plummeted when the crisis hit, and today's new building activity is still far below the level of 2006.

However, new building has been picking up in recent years, with several former development areas seeing renewed activity and new areas coming into play, including Nordhavnen (the north harbour) and other waterfront locations that have whetted investors' appetite.

Office construction has also picked up, but still on a moderate scale. For the past five or six years office vacancy rates have been relatively high, providing little incentive for new office starts. Nevertheless, vacancy rates are now improving, partly because of the Danish economic recovery which is prompting an increase in employment levels and occupational demand for offices, and partly because some office premises belonging to the outdated CBD stock are being converted for residential use in response to the surge in residential demand.

In 2015, some 175,000 m^2 of new office space is scheduled for completion in Greater Copenhagen. 40% of this is located in the new Copenhagen CBD (the waterfront).

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THE BALTIC REGION

The Baltic property market has changed significantly over the past 15 years. The Baltic countries became full members of the European Union and NATO in 2004 and in 2007 they joined the Schengen area. EU membership brought the Baltic region to international investors' attention, and in the years before the global financial and economic crisis the transaction volume reached new record levels. When the crisis came in 2008, it influenced all segments of commercial real estate in the Baltic countries. The industrial market and the office market suffered the most and are still recovering. In 2015 the prime office rent level has still not reached its pre-crisis level and is unlikely to reach it in the next couple of years. The hotel market and the retail market recovered faster and regained their pre-crisis indicators quickly.

Latvia – high activity in the investment market

The investment market

Since 2004, when Latvia joined the European Union, the most active transaction years with cash-generating properties were 2006 and 2007. The transaction volume reached more than EUR 350 million in both years, with retail investments dominating. The first institutional investors who entered the market back in 2004–2007 have already started exiting from their first funds. Baltic Property Trust, the region's pioneer, will be followed during the next couple of years by other professional investors exiting their funds full of prime-quality assets. Some transactions are currently in process and could be finalised in late 2015 or early 2016.Latvia has shown impressive results in battling the crisis as well as recovering from recession, showing good activity in the investment market in the period 2013–2015 and outperforming the long-term average. The transaction volume of EUR 170 million in 2013 was the highest in any year since 2008. All the investments were made in Riga, with retail investments dominating.

During the last 15 years in Riga, office investment accounted for more than 25%, retail investment more than 55% and the industrial market about 10% of the total real-estate investment volume. The hotel investment market constituted only 2% of total transactions. Nordic, Baltic and Russian investors are still the key players in the Baltic market due to the high return on investment. The most active investors originate in Sweden, Estonia and Norway and include Nordic and Baltic Property Group (NBP), EfTEN Capital, Capital Mill and New Agenda Partners. During the first half of 2015 the situation has changed with interest from investors in Malta and Switzerland.

Though yields have decreased significantly in recent years, there is still an attractive gap compared to Western European levels. Average yields for prime retail and office assets remain around 7.25% (12% in 2009). Prime industrial properties stand at around 8.75% (also 12% in 2009). It is important to note that rents are still in the recovery phase, thus property values are very reasonable, often at around their development costs.

The office market

All modern office stock in Riga has been built since 2000; more than half of the current office stock was completed during 2006–2009, with some projects finished during 2010. Before the crisis the commercial banks were very active in constructing mainly A-class office buildings as headquarters near the existing CBD. However, average vacancy in modern offices rose from 4% in 2006 to more than 25% in the middle of the crisis; hence the recovery of this segment was very slow and developers' announcements of new projects were mostly wishful thinking.

In the post-crisis period construction of 'built-to-suit' offices for several public institutions began. In the middle of 2015 the modern office supply in Latvia reached 590,000 m^2, and new large-scale office projects are expected to be delivered to the market in 2017–2018. The prime office rent remains unlikely to reach its pre-crisis level for another couple of years.

The retail market

Between 2000 and the crisis of 2008, about 300,000 m^2 of modern shopping-centre area was put onto the Riga market. The first modern shopping centres were developed from 1998 to 2001 by Linstow Center Management and L.L.E. Real Estate. During 2006–2010 other developers launched their projects, and the most recently completed shopping centre was Galleria Riga, opened in October 2010. The city's current retail GLA of 420,000 m^2 represents around 0.65 m^2 per capita.

Some of the projects postponed by the crisis are still not built, although there are now signs of starting construction of the first shopping centre, Akropolis Riga. Linstow Center Management will also start extension works on one of the most successful existing shopping centres, Alfa, later this year. Other new large-scale retail projects and expansions of existing centres are expected to be delivered to the market in 2017–2018. Following the overall economic recovery and improvement in retail trade, the market has seen a series of launches in 2012–2015 by brands such as Next, Burberry, Massimo Dutti, H&M, Debenhams, Subway and Sports Direct.

»The prime office rents in Latvia remains unlikely to reach its pre-crisis level for another couple of years«

+3%

FORECASTED GROWTH RATE THE BALTICS 2016–2017

Lithuania – increased interest from new investors since joining the Euro Zone

The investment market

International interest in the Lithuanian property market increased greatly after the country joined the European Union in 2004. Scandinavian and Eastern European investors started to buy various commercial real-estate objects in the main cities of Lithuania. The record total investment transaction volume was EUR 320 million in 2008, just before the global economic crisis.

Investment transactions then stopped for a while and started to grow again only in 2012. In 2015 it is expected that the total transaction volume in Lithuania will exceed EUR 200 million. The main investors in the Lithuanian property market are still local Baltic, Scandinavian and Eastern European buyers. But following the formal approval of Lithuania's joining the Euro Zone in 2015, more interest from other investors has been noticed. The most recent large investment deals this year have been made by investors from Switzerland and the Netherlands, and this trend is likely to increase in the near future.

The office market

Over the past 15 years the office segment in Lithuania has gone through two cycles. The first office development boom started in 2000 and lasted until the start of the global economic crisis in 2009. During this period the total supply increased from 40,000 m^2 to 320,000 m^2 of modern office space. The second office development boom in Lithuania then started in 2013–2014 and is still continuing. It was driven by a number of big international companies relocating their global shared-service centres to Lithuania; these included Western Union,

»After joining the EU, international interest in the Estonian property market increased remarkably«

Danske Bank, Intermedix, AIG and others. In the middle of 2015 modern office supply in Lithuania reached 420,000 m² and it is expected to exceed 600,000 m² over the next few years.

The retail market
The retail and shopping-centre segment in Lithuania also developed very fast, but only until the start of the global economic crisis in 2009. Post-crisis, the first sign of a slight recovery in the shopping-centre segment was seen in Vilnius when the first IKEA store in the Baltic region opened in 2013. Now Lithuania has more than 800,000 m² of modern shopping-centre space.

For the last few years the main landlords in this segment have been working primarily on new concepts for their existing shopping centres, rather than expansion or new development. Their main strategy is to strengthen their tenant list by replacing local brands with internationally famous brands such as H&M, Next, NS King, Sports Direct and others.

Estonia – prime office rents at top levels

The investment market
International interest in the Estonian property market increased remarkably after the country joined the EU. Retail has been the most active part of the investment market and was also the most stable market segment following the market slow-down.

After 2007 real estate in Tallinn became too expensive in the eyes of investors due to the overall price growth. Interest turned to smaller cities with lower prices but with a growth potential. Then in the financial crisis many companies went bankrupt, leaving banks with collateral on their hands. Since banks were selling collaterals at public auctions, selling prices were quite low. In 2011, the office sector became more active as a result of low vacancies and moderate increases in rental levels. The estimated volume of investment transactions remained at EUR 130-150 million a year up to 2013, followed by a drop to EUR 100 million in 2014.

The office market
The quality office stock in Tallinn rose to more than 610,000 m² in 2015 – over 3.5 times the area available in 2000. Since 2005, office development activity has started to move from the CBD to the outskirts. Over half the present office stock was delivered to the market in 2003–2009, before the effect of the 2008 crisis became evident. Post-crisis, the first new projects reached the market only in 2012, but the expected supply this year is comparable to the yearly volume during the boom of 2005–2007.

In response to demand, prime rents in Tallinn increased by 40% during the seven years 2001–2007. After a drop during the crisis of 2009, rent growth fluctuated. Today in 2015, the prime office rent in Tallinn stands at EUR 214 per m², which is about 2% above the level of 2014, 39% above the level of 2000 and 1.8% below the peak level of 2008. After 2005 the vacancy rate in Tallinn offices started to decline, falling to 2% in 2007. In 2009, after the crisis, vacancies increased again to 8%. Since 2011 the prime vacancy rate has remained around the 4% level.

The retail market
In the early 2000s retail trade was concentrated in well-located shopping malls. Then the hypermarkets started to grow, and between 2000 and 2014 the stock of modern retail premises in Tallinn grew almost fivefold, to 333,000 m². Up to 2004 development was very fast, so questions about the overheating of the market arose. Developers and banks became cautious about further expansion, and in 2006 development in Tallinn slowed down and developers showed more interest in other Estonian towns.

Top rents for retail premises started to increase in 2003 and rose by 8% in five years. During the crisis this was followed by a 26% drop over two years. From the end of 2007 until second half of 2010, rents fell by between 25% and 40%, depending on location. Since 2009 many existing shopping centres have started extension works, but there has been little new construction in the retail segment. However, new large-scale retail projects are expected to be delivered to the market in 2016–2018.

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NORDIC PROPERTY FINANCING

The Swedish credit market has remained in a positive mood. From a borrower's perspective it is pleasing to find falling interest-rate margins and small or no demands for amortisation. It is a sign of good health that the senior bankers are continuing to stick to the prevailing loan-to-value ratio and can thereby maintain good profitability even with falling interest-rate margins; this is because the loan-to-value ratio is a relatively heavy factor in the banks' rating models, which in turn affects how much capital a transaction will involve and hence what profitability the bank has on the transaction. At the same time it's very important for the borrower to be vigilant in negotiating other conditions of the credit – for example, how and where securities are placed, rights to repay the loan early or to extend it, what is the actual duration, and so on.

On the market for junior loans, i.e. the loan capital provided in addition to the senior financing, there are a couple of players that stand out in a positive way in terms of their expertise and their ability to make deals. They offer a natural symbiosis between junior and senior external capital which is very clearly working in practice. Some of the senior bankers are a little wanting in their understanding of security structures that both senior and junior lenders can actually feel comfortable with. Of course, it is often the case that what you don't really understand appears risky and you tend to recoil from it. But several of the senior bankers are experienced in this area and hence can contribute to a structure that is good both for themselves and for the junior lender and the borrower. This symbiosis is likely to be something we shall see much more of, and senior lenders who do not want to risk losing customer portfolios will certainly learn to handle these structures too. At bottom, of course, it is about ensuring that all parties feel comfortable.

The bond market has been, and still is, a little shaky, especially in the high-yield segment. But it still feels as if the market is beginning to become more mature – which in turn often gives a more finely calibrated view of what really constitutes quality. Several of the major houses have very good investment skills and good structuring ability. There may sometimes appear to be an eagerness to set the coupon a little too high in order to ensure that the completion goes through quickly and smoothly, but even there things are starting to become more finely calibrated. There is significantly more of the Wild West involved in the 'real' high-yield market, where smaller players try to push relatively small bonds. The quality in terms of transparency, structure etc is enormously variable.

To sum up, it seems that we can look forward to the autumn with excitement and expectation about what is to come; and hopefully and probably the market will continue to be finely calibrated. As always, good negotiating skills and a good understanding of how transactions are structured remain of the utmost importance.

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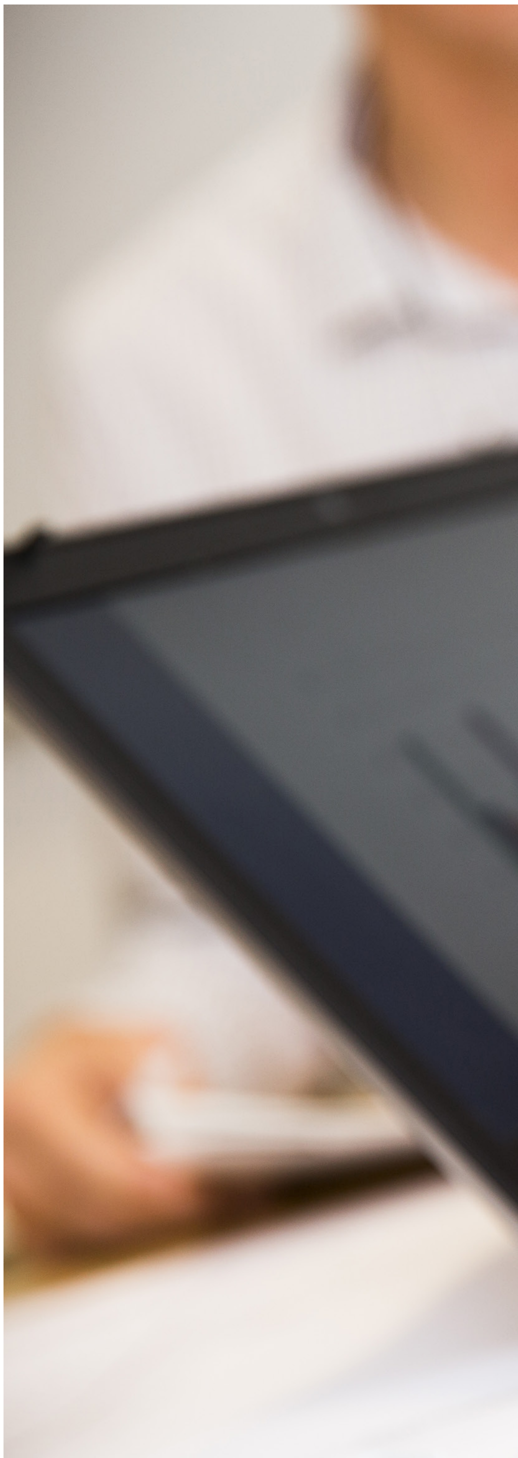


»We can look forward to the autumn with excitement and expectation about what is to come«


SCOR

OUTLOOK FOR THE NORTHERN EUROPEAN PROPERTY MARKET

Newsec five-year forecast
Continuously Newsec makes predictions about the commercial property market in Northern Europe. We are able to do this because of our local market presence in all the Nordic countries and in the Baltics.

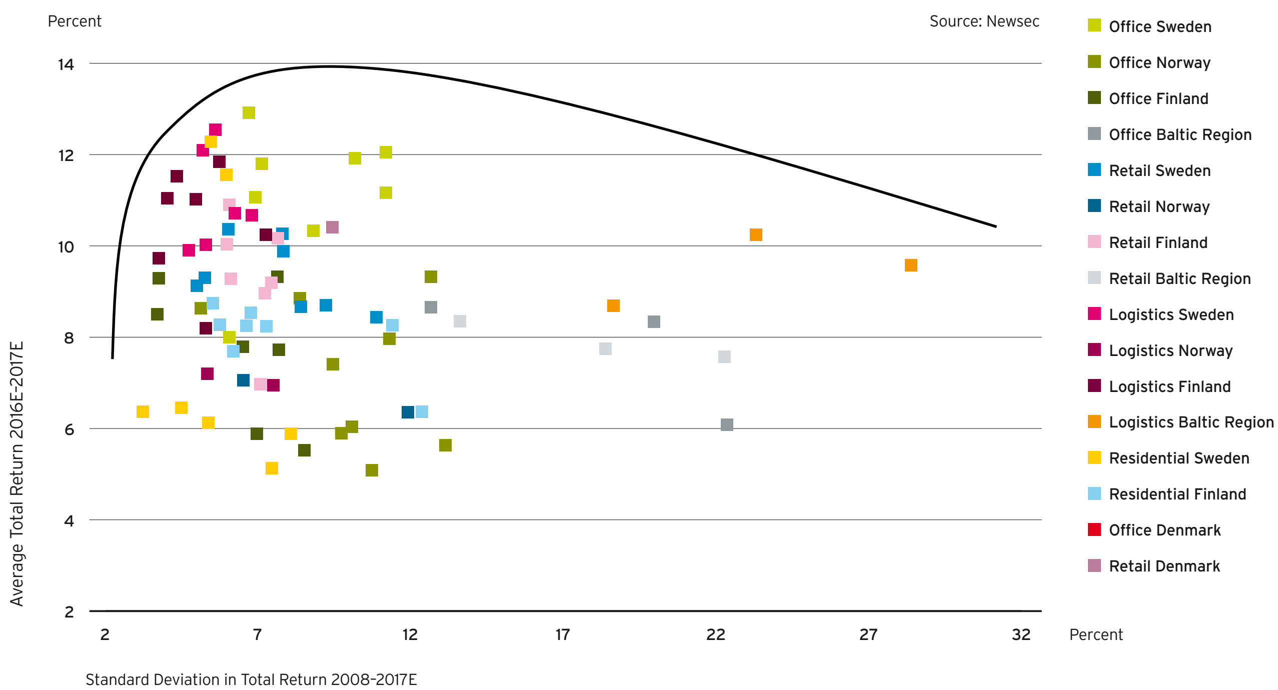
The basis for the forecast is our view about the macroeconomic development of the countries in the region and how that, in turn, will affect the commercial property market in each country. Yield, rental and vacancy trends for each market segment and area are estimated by our local experts and applied in a financial model to predict the optimal risk/return relationship between assets. Readers of the analysis will get an indication of where Newsec thinks the commercial property market in Northern Europe is heading during the next few years.

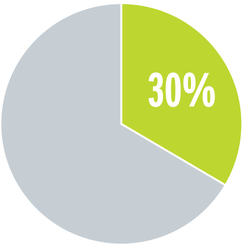
For further information on the assumptions behind the analysis, please contact us and we will support you in making the optimal investment- and allocation decisions in the years to come.

The peak of yield-spread compression
Since spring 2013 the Norwegian and Swedish property markets have shifted from a single-minded focus on high-quality properties in prime locations towards broad activity mainly in segments outside prime locations. This includes inner-city and prime suburban office locations as well as retail, logistics and residential properties in regional and smaller growth cities. In response to this, transaction activity in the CBDs of the major cities has fallen markedly, mainly due to limited supply and low yields. The market shift has been driven by improving market sentiment, better credit access and historically low interest rates.

The start of 2015 has been characterised by fairly large interest from international investors. 30% of the acquisitions made in Sweden this year have come from international capital. The purchase by the American company Blackstone for SEK 9.5 billion contributed strongly to the high number. However, domestic property companies and institutions are also still very active on the transaction market, and the competition for all objects is tough. The low interest rate environment is expected to continue through the autumn, and together with good access to financing and lack of high-yielding alternatives will lead to continued high transaction volumes on the Swedish property market in the second

Total Return/Market Risk – 2016E-2017E





FOREIGN INVESTORS

SWEDEN, AUGUST 2015

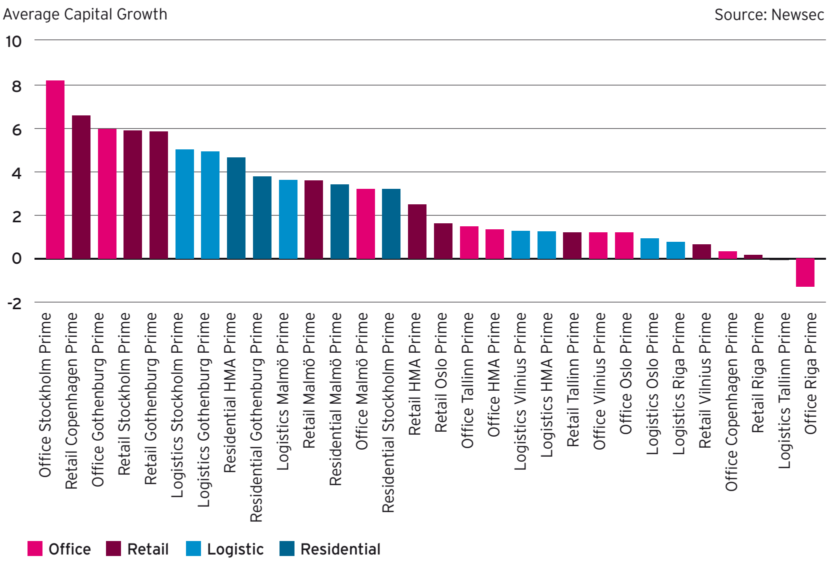
half of 2015. The total transaction volume is also expected to reach record levels in Norway and is at relatively high levels in a historical perspective in the rest of Northern Europe.

The transaction market is predicted to further intensify across all markets during the second half of 2015. The peak of the yield-spread compression is expected to be seen towards the end of 2015. Total return in CBD and inner-city locations will continue to be driven by rental growth, while in secondary locations there is still some yield compression to be seen driving total return.

The transaction volume in Norway continues to break records; the total volume in 2015 is expected to exceed NOK 90 billion. Some of the major players on the Norwegian market have taken advantage of the strong market conditions to offload non-strategic properties in their portfolio. International capital is increasing and Scandinavian investors in particular are increasingly entering the Norwegian market.

In Finland, the property market started to show signs of recovery during 2013 and 2014 and the activity has continued during the first half of 2015. Once again the Finnish property market is lagging behind development in most other parts of Europe. International investors have again started to show interest in Finland as the overall market sentiment now is beginning to look better, while yield levels are still quite attractive compared to the rest of the Nordic area and Europe.
On the Danish market, the demand for prime properties will continue to be strong throughout 2015. The activity is also likely to feed through to the secondary markets due to the yield compression seen across all segments. Investors are also likely to adjust their risk profile in order to find investment objects and secure profitable returns.

Average Capital Growth 2016E-2017E



In the Baltics, there is still an attractive yield gap compared to Western European levels. Now that Lithuania has joined the euro in 2015 (the last of the countries in the region) we will see an increased demand for the entire region from international investors in future. The traditional trend of international capital coming solely from Nordic and Russian investors has changed during 2015. A few of the larger deals in the region can be tracked across Europe to countries such as the Netherlands, Malta and Switzerland. Following this trend, we can expect increased competition for properties in prime locations, leading to yield compression in the prime segment.

Office in Sweden has the best expected total return in 2016–2017

Office properties in Sweden are expected to show the best total return during the period 2016–2017. This is although a segment that historically has shown a fairly high volatility. The high expected total return for Swedish office properties is primarily driven by expectations of highly increasing rent levels and continuingly sinking yield levels.

The 'Logistics Sweden' and 'Logistics Finland' segments both show a good expected total return in 2016–2017. These segments have shown a relatively low volatility historically. Residential properties in Sweden will continue to deliver a stable total return with low risk during the forecasted period. In recent years Swedish institutions have increased their interest in the residential segment, which has increased liquidity in the segment and contributed to falling yields.

Retail properties in Sweden historically show a wide risk-spread varying with the sub segment, while expected average total return across the segment is somewhere between 8% and 10% during the period 2016–2017. It is therefore possible

»Office properties in Sweden are expected to show the best total return during the period 2016-2017«

to find attractive risk-adjusted returns within the segment, but investors buying on today's market must properly analyse the location and sub-segment of Swedish retail properties in order not to get exposure to an investment with an unnecessary risk-level in relation to total return.

Office properties in Norway show a similar trend in risk-spread as retail in Sweden. For this segment the expected average total return is somewhere between 5% and 9% during the forecast period, with a large variation in risk level depending on market sub segment.

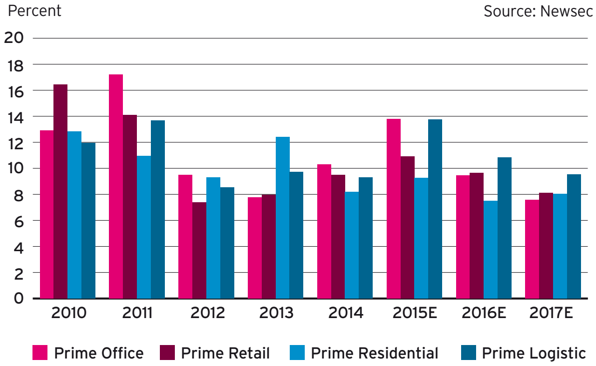
Investors chasing maximum return during the forecast period should go for office properties in Sweden and selected logistics properties in Sweden or Finland.

Within the prime segments, office in Stockholm has the best expected capital growth in 2016-2017

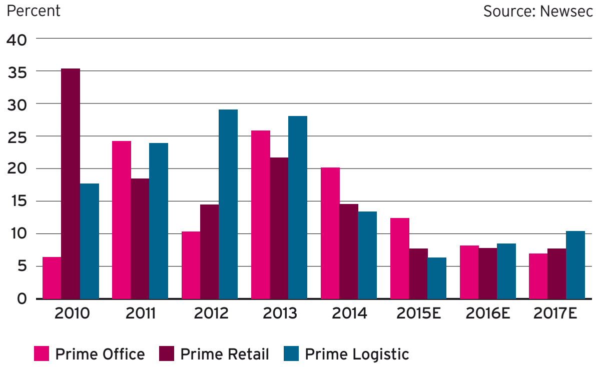
Office properties in central Stockholm are expected to show the best capital growth during the period 2016-2017. The average yearly capital growth for the segment is predicted to be around 8% during the forecast period. The high expected capital growth is primarily driven by expectations on a high rental growth in combination with slightly decreasing yields. The segments 'Retail Copenhagen Prime', 'Office Gothenburg Prime', 'Retail Stockholm Prime' and 'Retial Gothenburg Prime' are all expected to show a yearly capital growth of around 6% during the period.

The prediction is most negative for office properties in Riga, where the average yearly capital growth is predicted to be -1.3%. This is driven by large increases to vacancies. Investors chasing maximum capital return during the forecast period should go for office properties in central Stockholm.

Total Return | Nordic Region



Total Return | Baltic Region

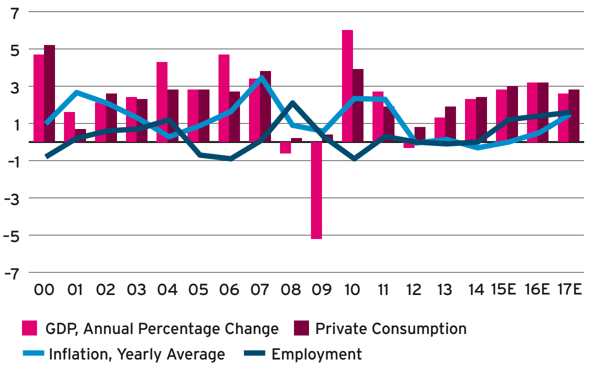


MACROECONOMIC DATA

Sweden

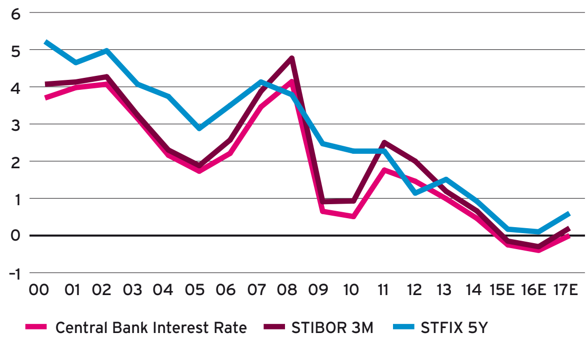
Economic Indicators

Percent Source: SCB, Newsec



Interest Rates

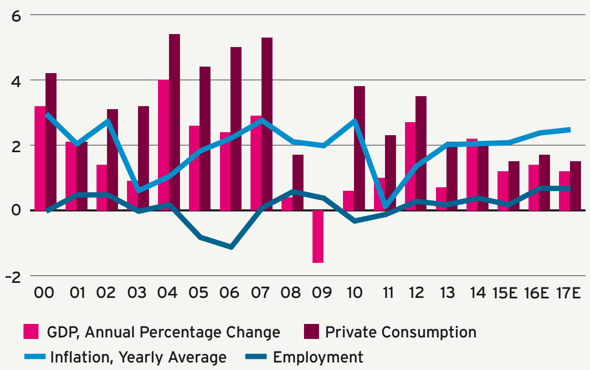
Percent Source: Swedbank, Riksbanken



Norway

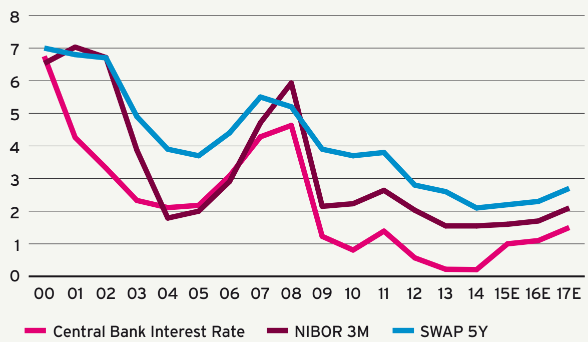
Economic Indicators

Percent Source: SCB, TradingEconomics



Interest Rates

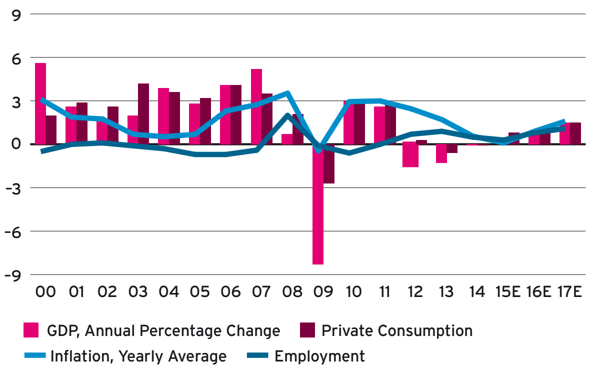
Percent Source: Bloomberg, Riksbanken



Finland

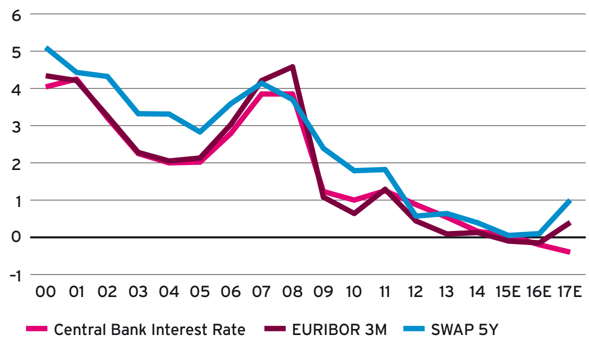
Economic Indicators

Percent Source: SCB, TradingEconomics



Interest Rates

Percent Source: ECB, Riksbanken

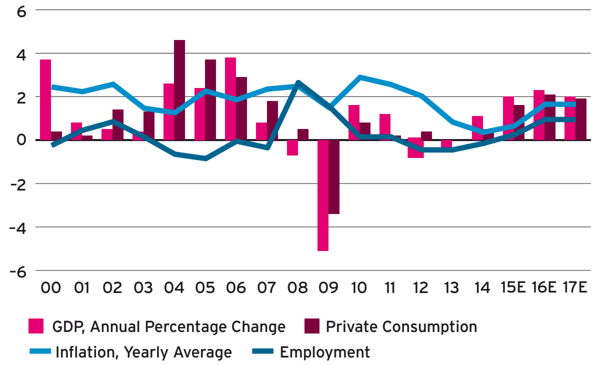


Denmark

Economic Indicators

Percent

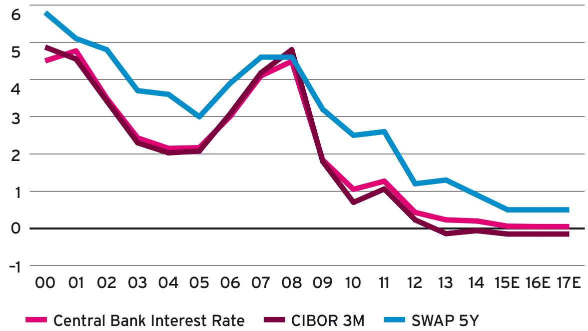
Source: SCB, TradingEconomics



Interest Rates

Percent

Source: Riksbanken, Bloomberg

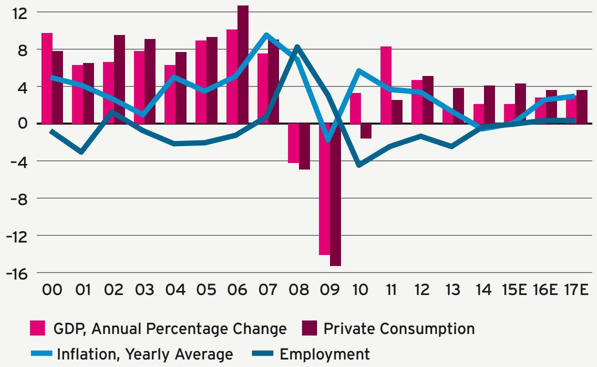


Estonia

Economic Indicators

Percent

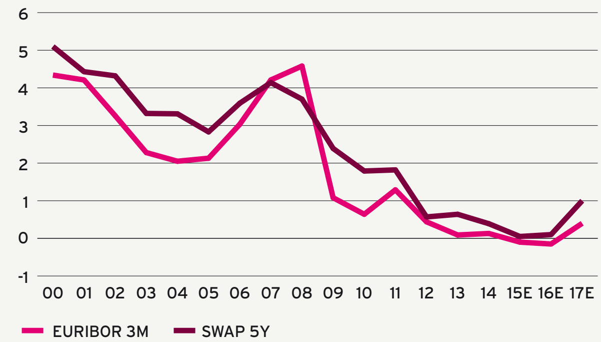
Source: SCB, TradingEconomics



Interest Rates

Percent

Source: ECB, Riksbanken

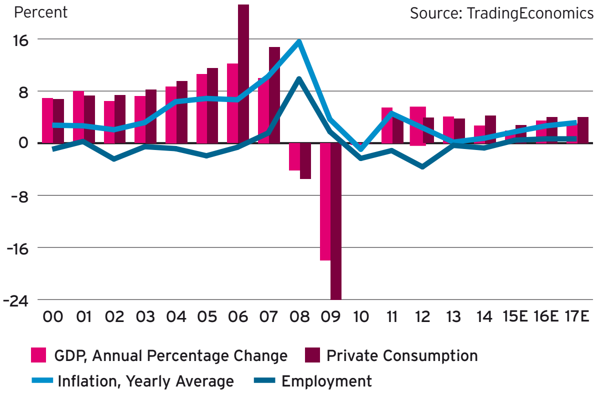


Latvia

Economic Indicators

Percent

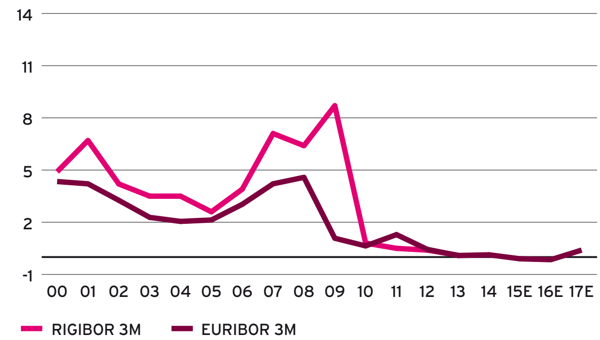
Source: TradingEconomics



Interest Rates

Percent

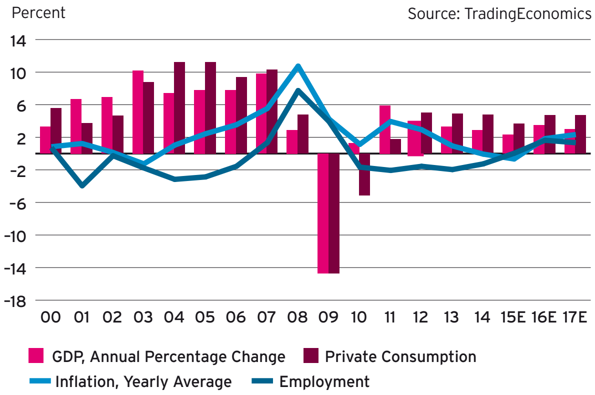
Source: Bloomberg



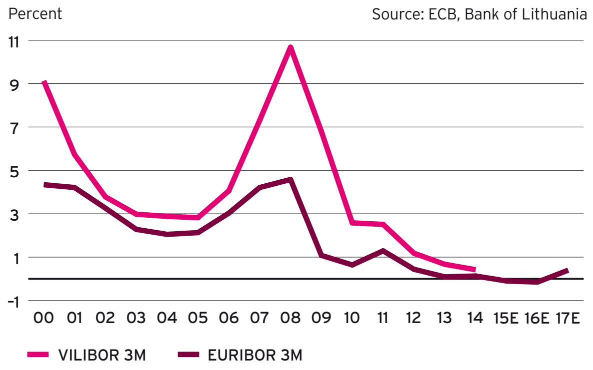
MACROECONOMIC DATA

Lithuania

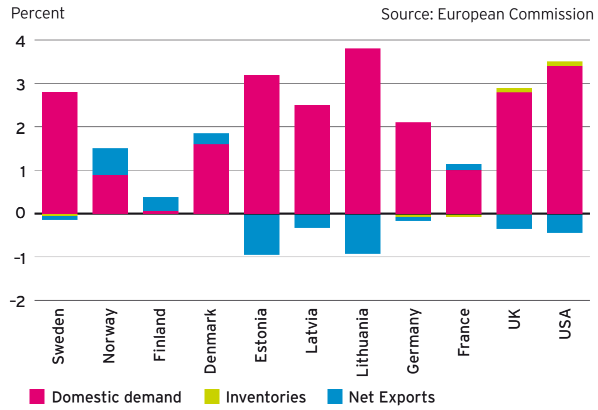
Economic Indicators



Interest Rates



Contribution to GDP Growth 2015E

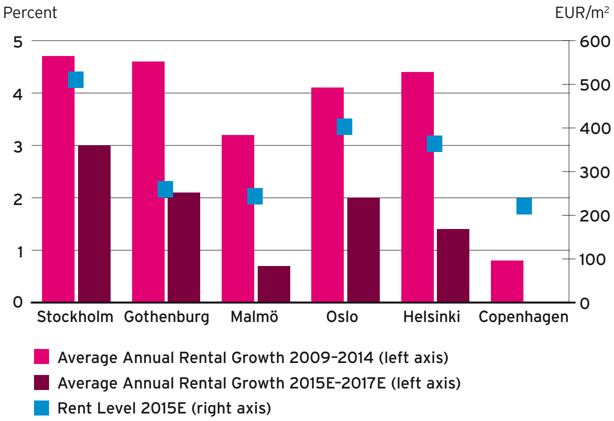


PROPERTY DATA

Office rents

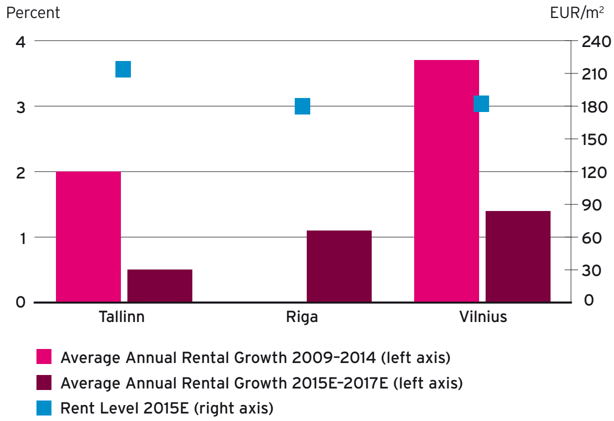
Prime Office Rents (CBD) | Nordic Region

Source: Newsec



Prime Office Rents (CBD) | Baltic Region

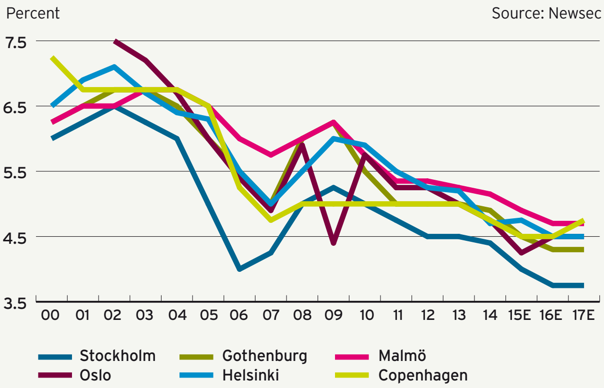
Source: Newsec



Office yields

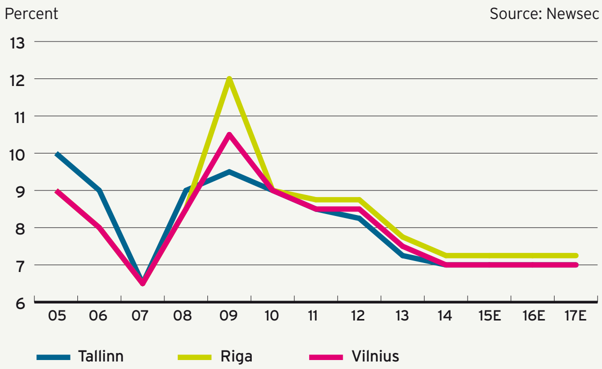
Prime Office Yields | Nordic Region

Source: Newsec



Prime Office Yields | Baltic Region

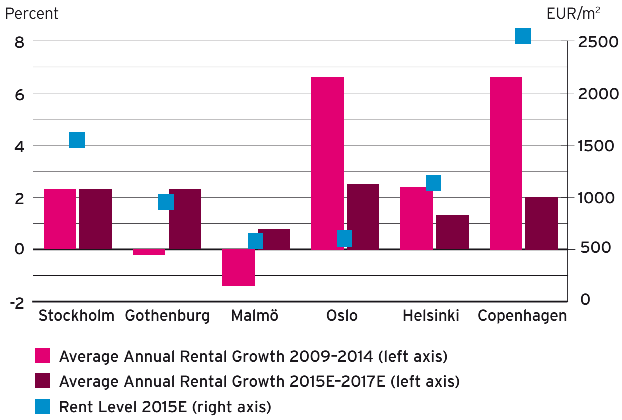
Source: Newsec



Retail rents

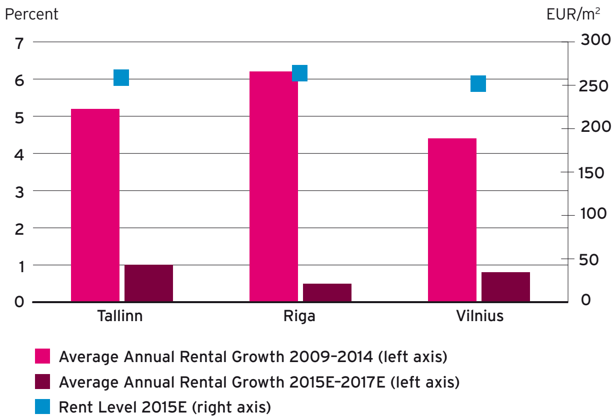
Prime Retail Rents | Nordic Region

Source: Newsec



Prime Retail Rents | Baltic Region

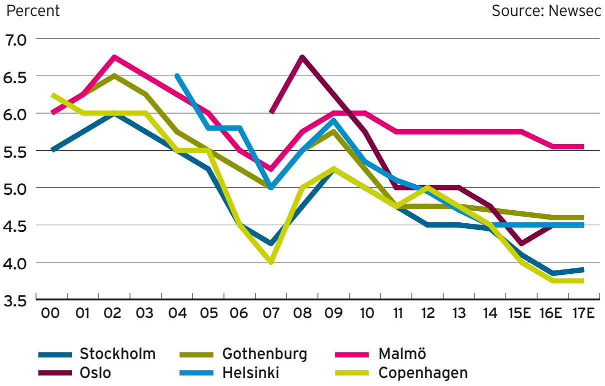
Source: Newsec



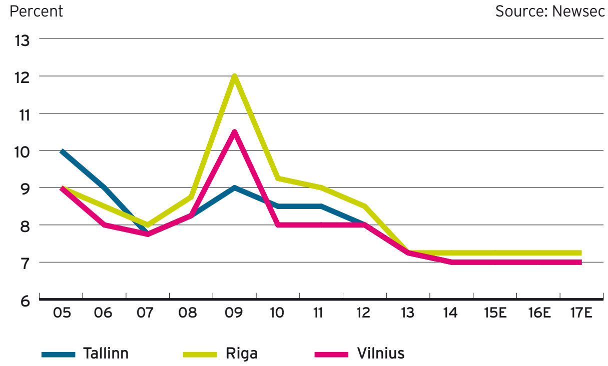
PROPERTY DATA

Retail yields

Prime Retail Yields | Nordic Region

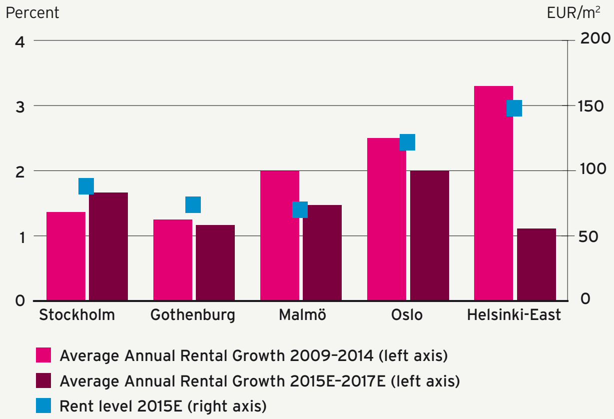


Prime Retail Yields | Baltic Region

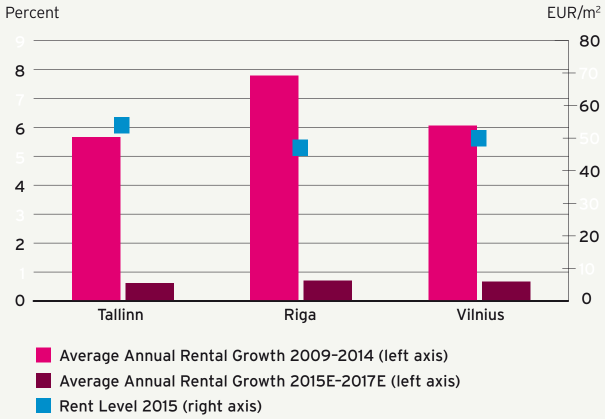


Logistics rents

Prime Logistics Rents | Nordic Region

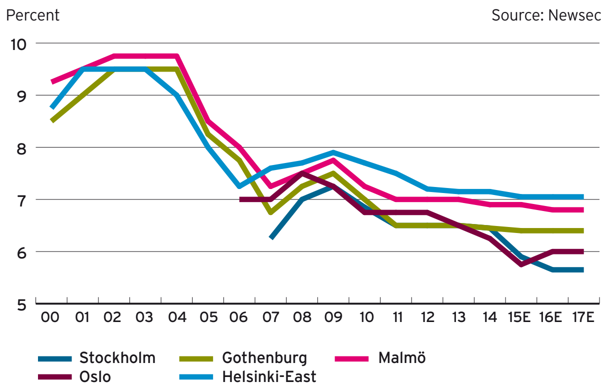


Prime Logistics Rents | Baltic Region

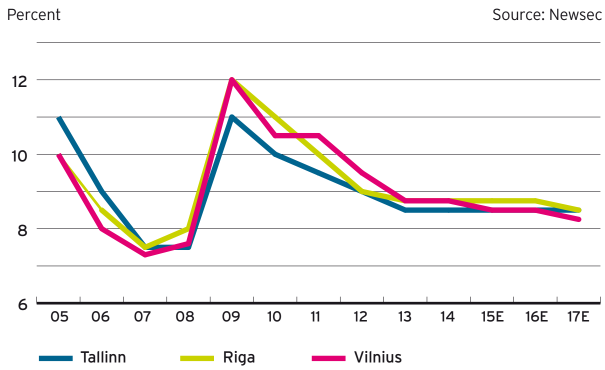


Logistics yields

Prime Logistics Yields | Nordic Region



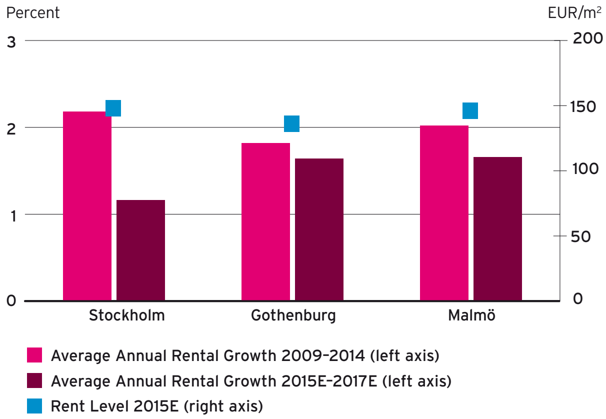
Prime Logistics Yields | Baltic Region



Residential rents

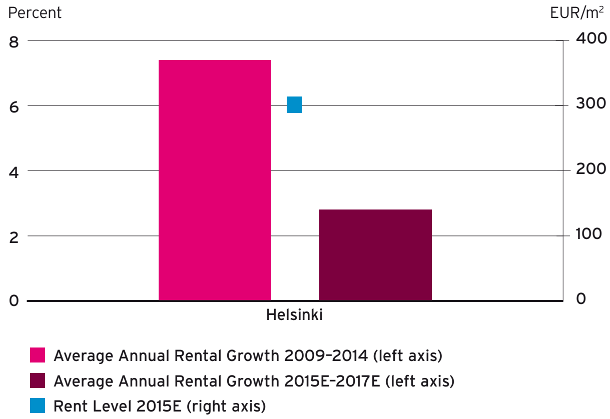
Residental Rents | Sweden

Source: Newsec



Prime Residental Rents | Finland

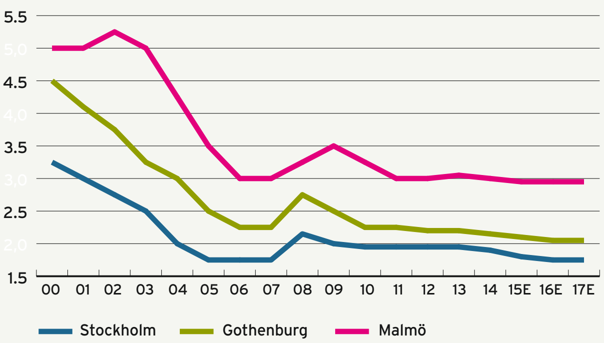
Source: Newsec



Residential yields

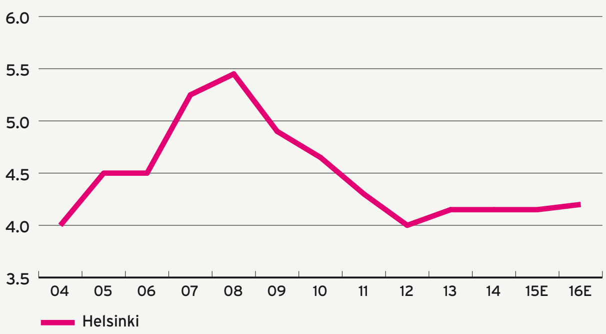
Prime Residential Yields | Sweden

Source: Newsec



Prime Residential Yields | Finland

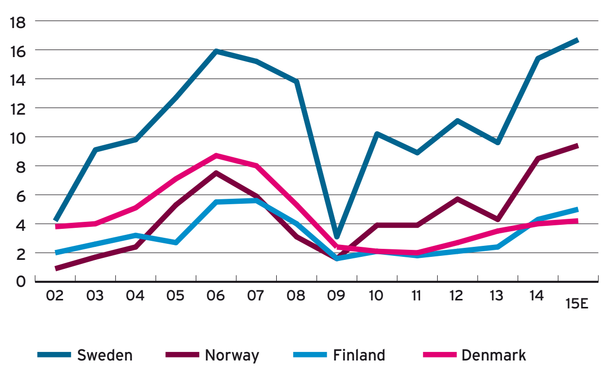
Source: Newsec



Annual transaction volumes

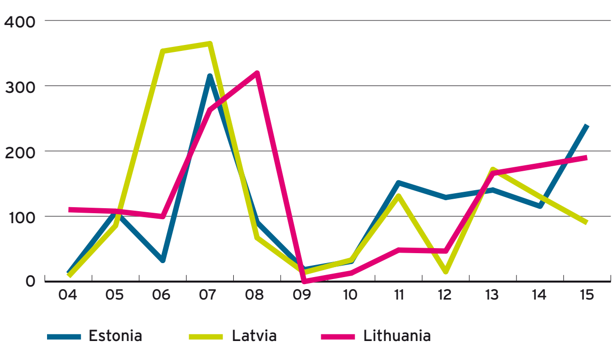
Transaction Volumes - Annual | Nordic Region

Source: Newsec



Transaction Volumes - Annual | Baltic Region

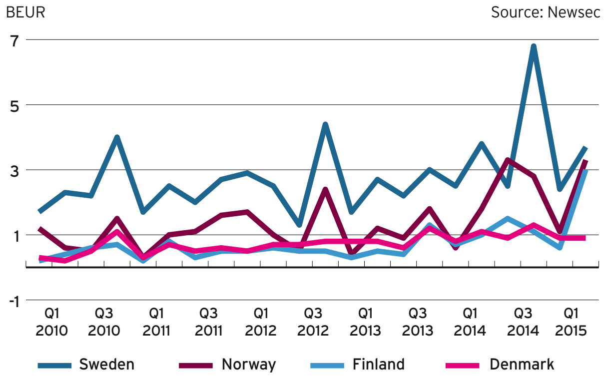
Source: Newsec



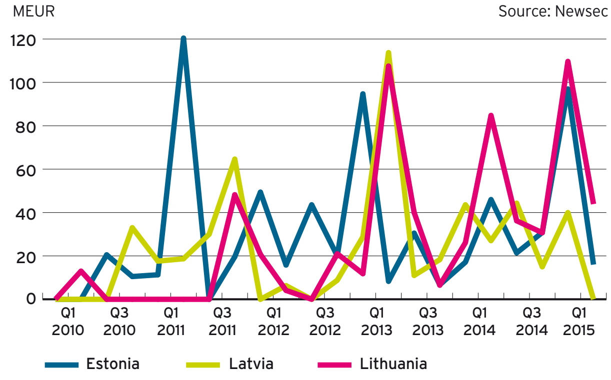
PROPERTY DATA

Quarterly transaction volumes

Transaction Volumes – Quarterly | Nordic Region

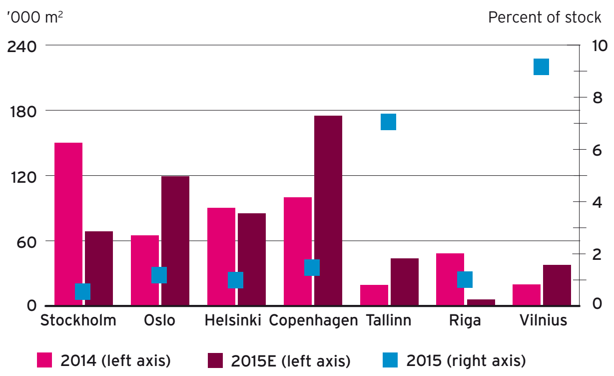


Transaction Volumes – Quarterly | Baltic Region



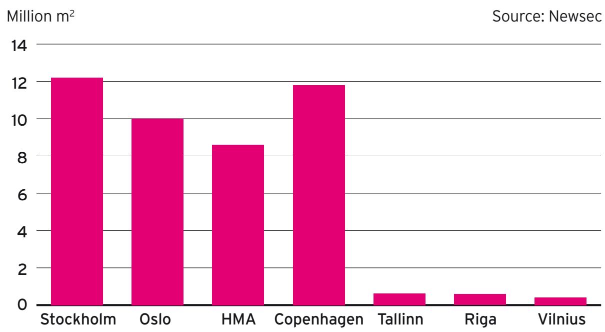
Office new construction

Office New Construction (Capital Office Market)



Office stock

Office Stock Q2 2015 (Capital Office Market)



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 m^2.
- 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 m^2.
- 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 m^2 with 5–10 years lease agreement.
- In the Baltic region the size of the premises is assumed to be from 3,000 m^2 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 m^2.
- The rent includes heating and Property Tax.

EXCHANGE RATES

All rents and transaction volumes are calculated using exchange rates from August 2015.

NEWSEC'S ANALYSIS PRODUCTS

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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 know-ledge 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 a 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. In 2015 the Newsec Property Outlook celebrates its fifteenth birthday, which is being marked by a special design for this year's issues.

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.

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.

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