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NEWSEC PROPERTY OUTLOOK

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PROPERTY OUTLOOK

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EXECUTIVE SUMMARY

Global stock markets have shown high volatility during the first two months of 2016, and the Swedish, German and US stock markets, like most other markets, are showing a strong negative trend since the start of the year. There is concern among some investors that the uncertainty on the global stock markets will spread across all types of investment markets going forward. However, we believe that the commercial property market will continue to 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.

Demographic changes are affecting the European property market

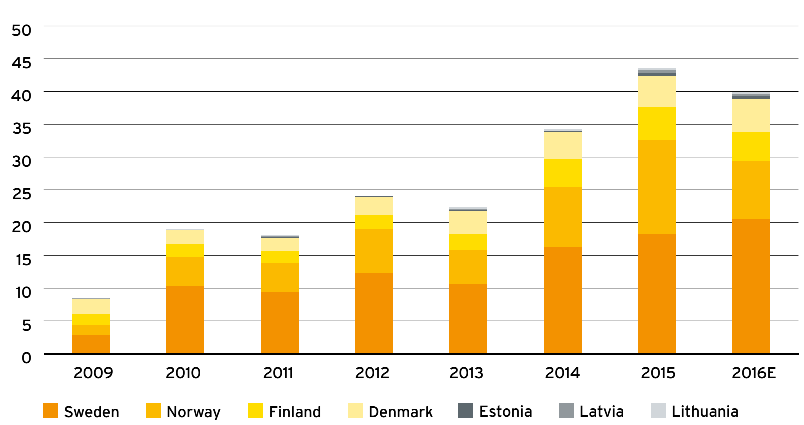
This Newsec Property Outlook is focused on the demographic changes we are seeing in Europe today as a result of an ageing population, increasing immigration and urbanisation, and on how these changes are affecting the property market in different ways. As always, we also report on the current status of the property market in Northern Europe and our views about the future.

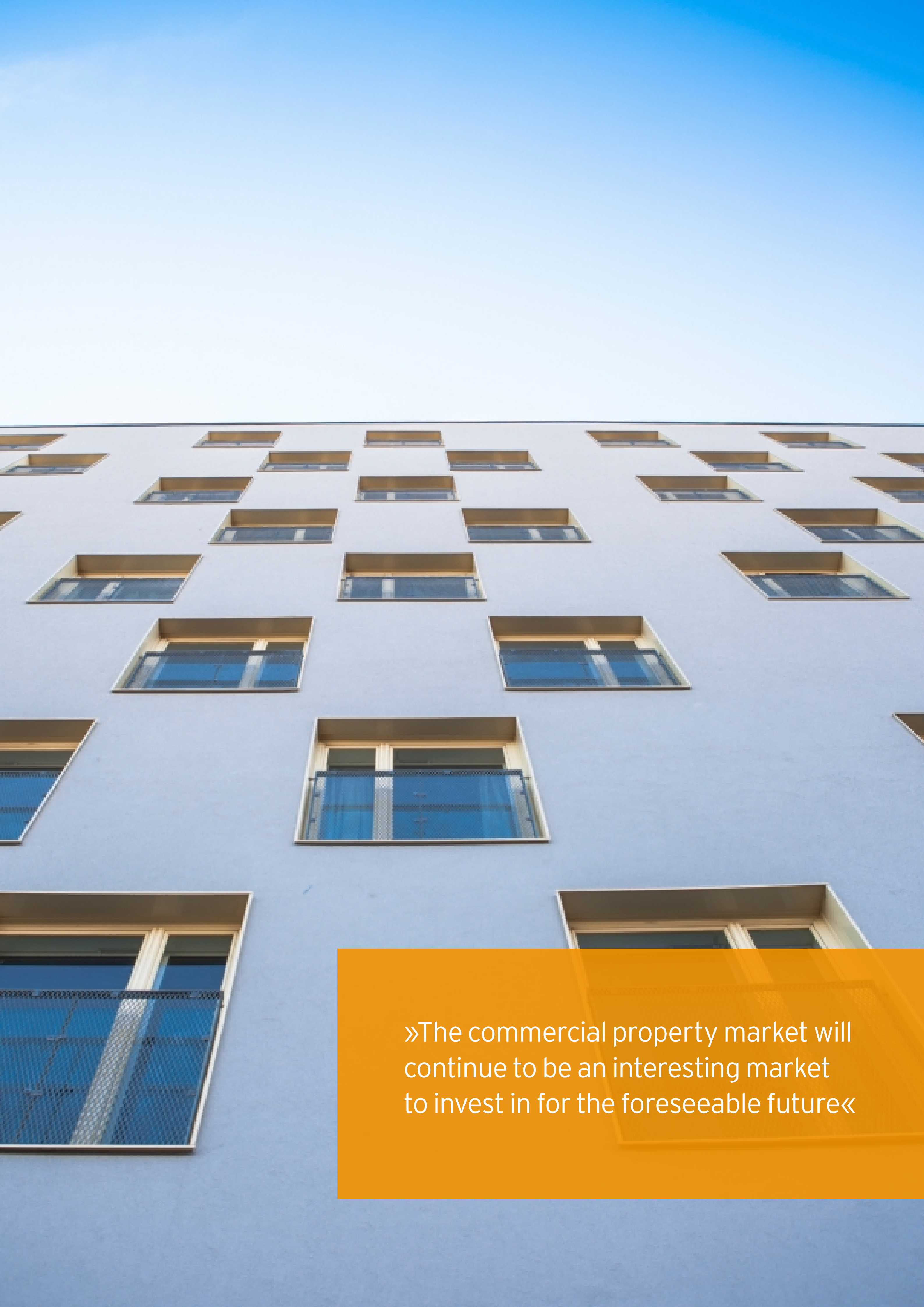
Europe is facing unprecedented demographic changes because of its ageing population, changing family structures, urbanisation and migration. Due to the civil war in Syria, Europe has seen a massive increase in immigration in 2015. More than a million migrants and refugees crossed into Europe last year, sparking a crisis as countries struggled to cope with the inflow and creating division within the EU over how best to deal with resettling people.

Within Northern Europe the demographic trends look significantly different depending on which country you look at. Sweden, Norway, Finland and Denmark are all showing strong growth rates in population, with the population growth in Sweden being historically high. In the Baltic countries, on the other hand, the population growth has been negative since 2010, primarily due to negative net migration. The immigration trends are also significantly different depending on country. Both Sweden and Norway are currently allowing a very large immigration in relation to total population while Denmark, Finland and the Baltics are more restrictive. Following these trends the implications, challenges and opportunities for the property markets are quite different across Northern Europe.

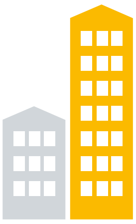
Sweden is facing major challenges across the whole property market as a consequence of the drastic changes in demography. With the current regulations and structure of the residential property market there is no chance that the need for housing across the country, and in particular in the major cities, can be met. The zoning-processes in most of Sweden's municipalities are too long, building costs are steadily increasing, and it is easy to appeal against the zoning decisions, which extends the construction time. Altogether this is having a heavy negative effect on the construction of new housing. Substantial reforms are needed in Sweden's housing policy, and the reforms are needed now. The municipalities in Sweden's three major cities should also take inspiration from strongly growing municipalities such as Uppsala, Norrköping and Luleå on how to view housing construction. In these municipalities it is more common to have a more pragmatic view on the challenges of housing production, and the political parties are more willing to work together across the political spectrum. There are also huge challenges concerning public properties. In the next 15 years 7.7 million m² of new schools, housing for older people etc will have to be built. In addition to the public properties about 42 million m² of residential space is needed over the next 10 years. Together, this will require large amounts of capital to be allocated to

Transaction Volume: Nordic and Baltic Region





»The commercial property market will continue to be an interesting market to invest in for the foreseeable future«



42 MILLION m^2

RESIDENTIAL SPACE NEEDED SWEDEN 2025

new production in the property sector. In addition, the development of the residential markets in the major cities is tending to increase segregation in society. Central Stockholm is beginning to look more and more like central London, where only people with high incomes can afford to live and people with smaller incomes are pushed further and further away from the city centre.

2016 will show a continued high market activity

The low interest rate environment will continue through the spring, and together with volatile stock markets, lack of high-yielding alternatives and relatively good access to financing will lead to continued high transaction volumes on the property markets in Northern Europe during 2016.

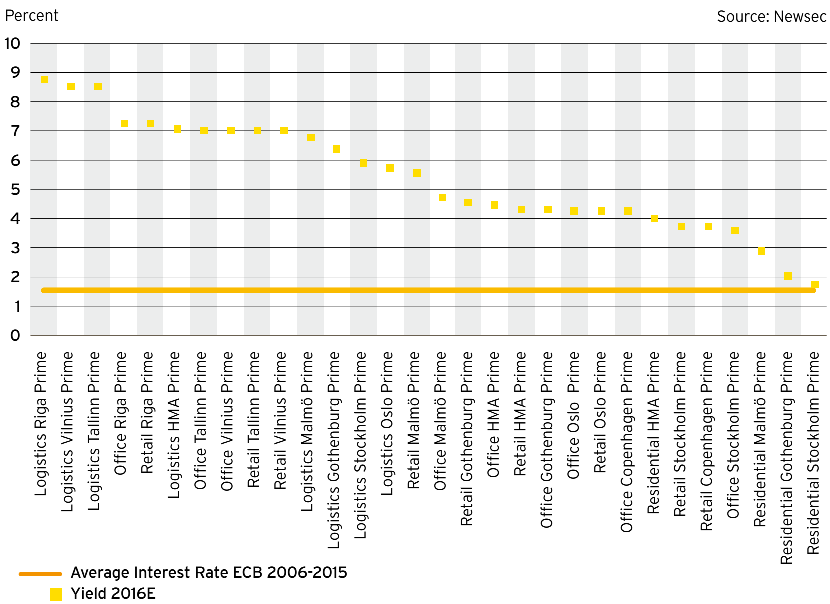
The past year, 2015, has continued to show a strong Swedish transaction market. Considering transactions of SEK 100 million or more, deals with a total volume over SEK 134 billion were carried out. This figure was slightly below 2014 when more than SEK 149 billion was invested in property all over Sweden. One factor contributing to the good financing climate and continued strength of property is the low interest rate, which the Swedish central bank decided to cut by a further 15 basis points to -0.5 % at its last meeting in February. There has been a continuously high interest in properties in Sweden's smaller regional towns and during 2015 they accounted for 45% of the total transaction volume. The interest from foreign investors is high and in 2015 they represented 28% of the transaction volume, compared with 18% in 2014. Due to shaky global stock markets, low yields on the bond market and continued low interest rates combined with a strong Swedish economy, the interest from foreign investors is expected to remain strong throughout 2016.

Norway's property market is continuing to break records in terms of transactions; the total transaction volume in 2015 was about NOK 120 billion, which is an all-time high by a significant margin. The search by domestic and global investors for property investments with attractive risk-adjusted returns has resulted in a wave of capital flowing into the Norwegian property market, leading to an increase in investment activity and a prolonged core yield compression. Newsec predicts a modest slowdown in 2016.

The Finnish property market saw a transaction volume of nearly EUR 5.5 billion in 2015, which is an increase of around EUR 1 billion compared with 2014. The Helsinki Metropolitan Area accounts for more than half of Finland's property market transaction volume in terms of value. Investment activity is expected to remain relatively high in 2016, even though Finland's economic indicators seem moderate and the tenant market is passive. Finland's property market yield levels are attractive to foreign investors and there is capital ready and waiting for good investment opportunities.

The property transaction volume in Denmark rose throughout 2015 and reached DKK 36 billion, compared with a total of DKK 30 billion in 2014. So far, the brisker transaction activity has been largely concentrated in and around Copenhagen and to some extent Aarhus, with the prime segment most highly coveted. Higher employment rates, positive demographics and a brighter economic outlook have made investors more aggressive in seeking investments in the office-properties segment in Copenhagen CBD, where falling vacancy rates have made it increasingly difficult for users to find up-to-date office space. The demand has driven prime CBD office yields down to 4.25%, a level acceptable to both domestic property companies and a large number of international investors.

Market Yield Northern Europe



»The Nordic transaction market will be strong throughout 2016«

2015 was a record-breaking year for the Baltics. For the first time in history the combined transaction volume of the three countries exceeded EUR 1.1 billion. This is a large increase on 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. After joining the euro 2015 (the last of the countries in the region), the prediction is that the demand from international investors for properties throughout the region will increase going forward. A few of the larger deals in 2015 came from investors in countries such as the Netherlands, Malta and Switzerland.

GLOBAL ECONOMIC OUTLOOK

Global

The conditions for global recovery have taken a significant hit in recent months and the risks going forward have turned more negative. However, there is a fundamental basis for higher growth in the developed economies, although uncertainty and financial market volatility could derail the journey for a more or less extended period. The slowdown at the end of last year implies that we should shift our forecasts for the next two years, but, more important, that we should raise the negative risks. We will be watching closely the developments in China and the policy intentions of the Chinese authorities for clues on how big the risk is for the global recovery. Overall, we believe that the headwinds have increased slightly more than the tailwinds. We now forecast global growth to reach 3.4% in 2016 and 3.7% in 2017.

Euro area – growth sustained

Conditions in the euro area are improving, albeit slowly. Economic policy in the euro area will remain supportive, but external headwinds are pushing down our growth forecasts. We remain optimistic about the prospects for further improvements in the euro area. Interest rates and the euro remain very low. Credit markets have continued to improve. We project GDP in the euro area to grow by 1.8% this year, slightly more than last year. This is not a high growth rate, but high enough for employment to continue to grow by about 1% and unemployment to fall. At 10.5%, unemployment remains too high, of course, but it is down from 12% in mid-2013 and we expect to see it fall towards 9.7% by early next year.

European consumers remain very upbeat. Consumer confidence is at high levels in most countries and growth in retail sales and private consumption has been strong. The continued fall in oil and other energy prices will provide a further boost to households' real incomes and help sustain demand growth. Over time, rising wages will also help to fund consumption growth. But there is a problem – lower oil prices mean that inflation is likely to remain very low in the euro area this year. Although we see no signs of deflationary behaviour, the European Central Bank (ECB) may be unhappy even with core inflation, which has stabilised at around 1% in most places.

In December, the ECB cut the deposit rate another 10 basis points to -0.3% and committed to continuing the bond purchase programme at least until March 2017. Bond purchase is continuing to run at EUR 60 billion per month, a very large amount compared with the size of both asset markets and the economy, but financial markets expected even larger purchases and a deeper rate cut in order to stimulate both growth and inflation further. Although the members of the ECB Council do not all agree on the need for further measures, they expressed worries at the January meeting about lower-than-expected inflation and higher risks. If commodity prices do not recover, volatility remains high and there are any signs of macroeconomic weaknesses, the ECB could act as soon as March. We now expect the first interest rate hike to be postponed at least until 2018.

Nordics

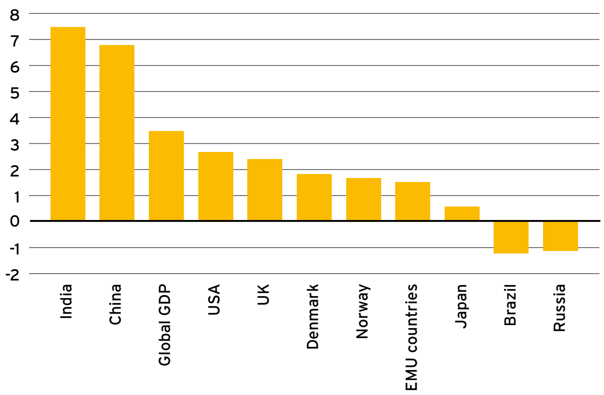
Sweden – urgent need for reform

On the surface, the Swedish economy is strong. Growth is high, driven by a strong labour market, high private and public consumption, and an upswing in industrial production. An ultralight monetary policy and expansionary fiscal policy are combining to reinforce each other. This is dynamite for growth but, like

Swedbank's Global GDP Forecast 2014–2017E

Annual Average Percentage Change

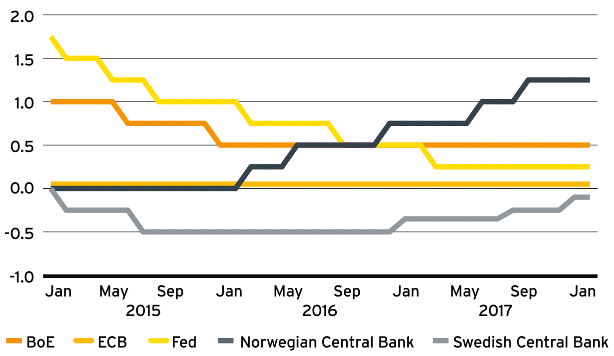
Source: IMF, Swedbank



Central Bank Policy Rate Forecasts

Percent

Source: Swedbank



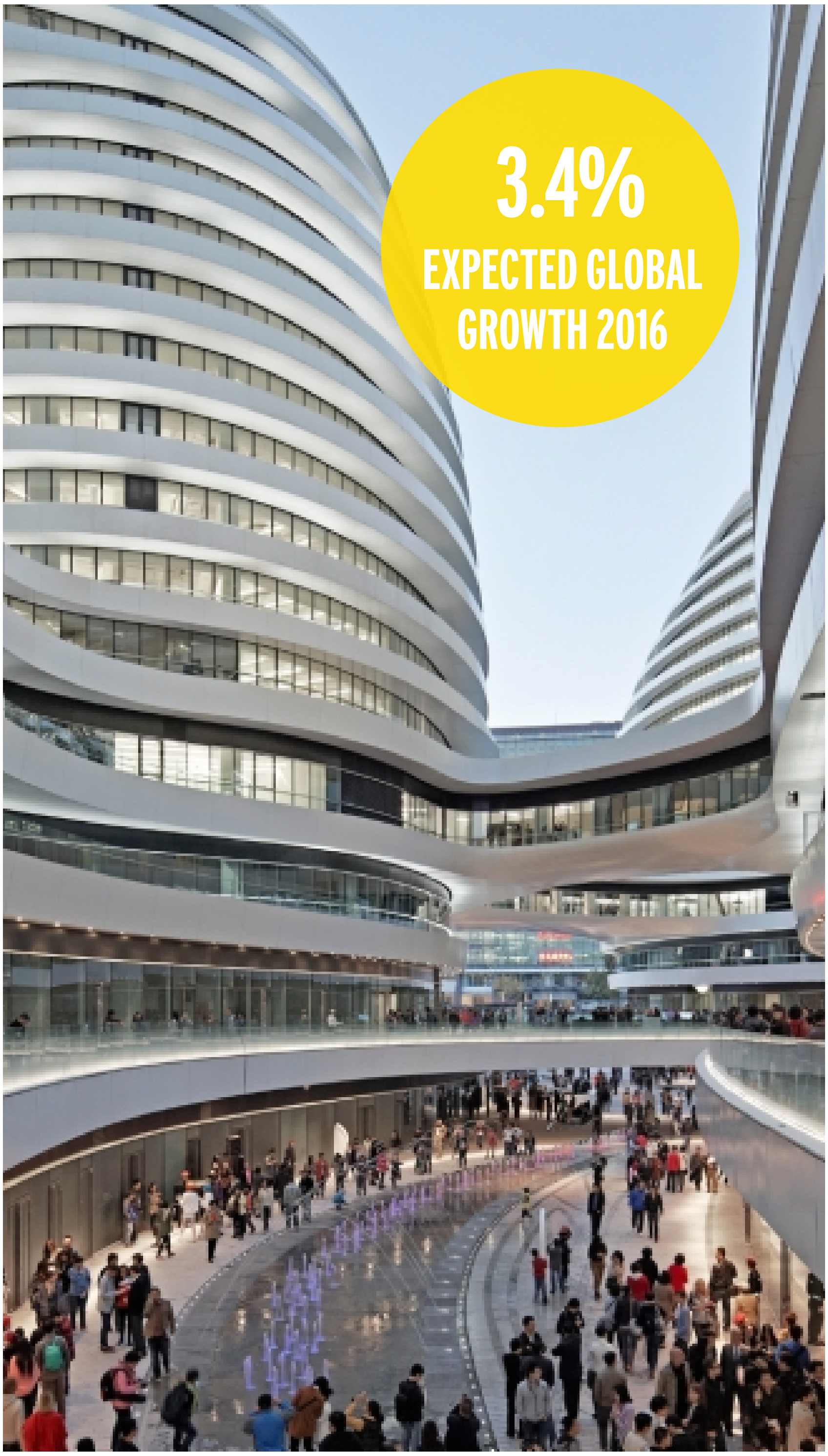
»After three years of high growth, the underlying imbalances in the Swedish economy could reach a breaking-point«

all explosives, has serious side-effects. The Swedish labour market is becoming increasingly polarised, the housing market is dysfunctional, and the education system has been neglected. After three years of high growth, the underlying imbalances in the Swedish economy could reach breaking-point. Growth will slow substantially in 2018 unless extensive reforms are implemented.

The Swedish economy is expected to grow significantly in 2016 and 2017. This follows strong development in 2015. The economy grew by 3.9% on an annualised basis in the third quarter of 2015. The main drivers in 2016 and 2017 will be high private and public consumption, rising housing investment, and an upswing in exports. The Swedish central bank's interest rate cuts and bond buying are contributing to this trend, as low interest rates stimulate household consumption and housing investment, and a weaker krona helps to boost exports. Industrial production has turned upward after struggling for several years. In addition, the huge wave of refugees has contributed to higher private and public consumption.

Swedish exports gained market share in 2015 in a global economy with the weakest growth since the financial crisis in 2009. In the US and Europe, which account for the majority of Swedish exports, growth has been significantly stronger than in emerging markets. Swedish export volume grew by an estimated 5% in 2015, driven mainly by higher exports of services. The global market growth for Swedish exports is expected to strengthen in 2016-2017, though at a slower pace than the historical average.

Inflation turned slightly higher in 2015, even though the year finished weaker than expected. We see inflation continuing to rise during the forecast period, but at a slower pace than we forecast



+0.5%

EXPECTED GROWTH FINLAND 2016

last autumn; this means that the annual CPIF rate will not reach 2% until the end of next year. Our main scenario is that the Swedish central bank will introduce currency interventions in the short term if the krona again strengthens to a level of 9.10–9.15 against the euro. Therefore and against the backdrop of continued low inflation the repo rate cut of 15 basis points to -0.50% in February was expected. An initial rent hike is expected in the first half of 2017. By the end of 2017, the repo rate is expected to have been raised to 0%.

Norway – into the depths

Growth in Norway's mainland economy remains low. GDP rose by 1% in the third quarter, but Norges Bank's Regional Network Survey indicates zero growth in the coming months. Oil-related activities are contracting sharply. The decline is set to continue and may well last longer than previously assumed, as oil prices have fallen further in the past months. As unemployment increases, the slowdown may spread to the broader economy. On the other hand, the weaker krone has improved competitiveness; however, so far, non-oil-related manufacturing shows no signs of upswing.

The labour market continues to deteriorate. According to the Labour Force Survey, unemployment has already climbed about one percentage point to 4.6%. Registered unemployment has risen far less overall but is now rising steadily. Thus far, the increase in unemployment remains concentrated in oil-related regions and professions. However, all indicators continue to point to weak labour demand, and employment growth has indeed slowed.

With rising unemployment, slower employment growth, and no real wage growth, a slowdown in household demand is to be expected. Consumer confidence has fallen to its lowest level since the financial crisis, indicating a decline in consumption. However, household savings are high, and public transfers, such as unemployment benefits, will provide income insurance; this suggests that households may be capable of sustaining their consumption level fairly well. We therefore see the risk of a severe contraction in consumption as very small.

Norges Bank has already lowered its main policy rate from 1.5% to 0.75%, and the central bank's projections indicate a further rate cut to 0.5% in the first half of 2016. Financial markets expect yet another cut to 0.25%. Norges Bank is clearly taking a careful approach to rate cuts, as it remains worried about imbalances in house prices and debt.

However, the strongest stimulus to the Norwegian economy is the weaker krone, which has significantly improved competitiveness for all firms exposed to international competition. Tourism is flourishing and fish farmers are enjoying record prices. So far, non-oil-related manufacturing shows no signs of upswing, and non-oil exports are rising very slowly. We remain confident that the weak krone will work, eventually. Meanwhile, however, the Norwegian economy remains at risk of worsening.

Finland – modest growth in a still-vulnerable economy

Recovery of Finland's economic growth in 2016–2017 will be sluggish and primarily supported by improving investments and exports. The economic situation of the main trade partners is expected to improve, strengthening export demand. Furthermore, several major construction projects in 2016–2017 should contribute to an increase in investments. Private consumption, which made the strongest contribution to economic growth in 2015, will slow this year, as loan repayment holidays expire, and wage and employment growth is modest. Although wage growth has slowed, it is still faster than productivity, worsening export competitiveness. Finland's GDP is expected to grow by 0.5% in 2016 and 1% in 2017, which is better than in 2012-2014 when the GDP growth was negative.

More than in many countries, the share of the industrial sector in Finland's economic output has declined, whereas the share of the services sector has gradually increased. The decrease in industrial sector production volume has gradually slowed, whereas turnover in the services sector has been growing since 2014. However, as a considerable share of services' output is used by industry, stronger growth in that sector depends on the recovery in demand by industrial and construction sector enterprises.

The government has ambitious plans for reforms to revive the economy and strengthen public finances. The high level of unemployment and ageing population are increasing government expenditures. At the same time, due to the economic recession and expected sluggish recovery, taxes and other government revenues are insufficient to balance the government budget.

Denmark – after a temporary setback, the recovery is on again

Real growth unexpectedly fell back into negative territory in the third quarter last year after positive growth had been registered for eight consecutive quarters. The decline was explained by decreasing exports, which was surprising given the relatively good performance of main trading partners and the competitive real exchange rate. Exports of both services and goods fell. The domestic economy is, however, continuing its upward trajectory,

»Recovery of Finland's economic growth in 2016–2017 will be sluggish and primarily supported by improving investments and exports«

with household consumption and investment supported by lower oil prices and increased employment.

Less pressure on the foreign exchange reserves implied that the Danish central bank could raise the policy rate by a modest 10 basis points to -0.65%. The currency reserves had dropped back to levels last seen prior to the significant inflows registered before the currency interventions to defend the fixed exchange rate.

Looking forward, we expect activity to pick up, and we stick to our view that risks of overheating are looming, albeit a bit postponed. Output gaps in both the labour market and the overall economy are expected to close next year and, with persistent low interest rates, housing prices are again a potential risk. Fiscal policy needs to become tighter, in line with the latest budget decision, but reductions in land taxes could instead raise risks.

Baltics – growth to pick up in 2016–2017

With the support of the improvement of the European economies, export growth in the Baltic countries is expected to accelerate. This will support business-sector investments and, in turn, will strengthen the economic growth. Nominal wage growth will remain satisfactory and, despite slightly higher inflation, household consumption will be the main source of growth. Unfortunately, employment growth will be weak or non-existent, mainly due to ageing societies.

Estonia – less growth potential ahead

Primarily due to weakened foreign demand and its negative impact on business sector confidence and investments, GDP growth decelerated to 1.2% in 2015. We expect demand on the European markets to strengthen in 2016 and 2017, offering more possibilities for Estonian exporters. The improved demand outlook is expected, in turn, to have a positive impact on investments. GDP growth is expected to accelerate to 2.3% in 2016 and to 2.6% in 2017.

Latvia – cyclical upswing

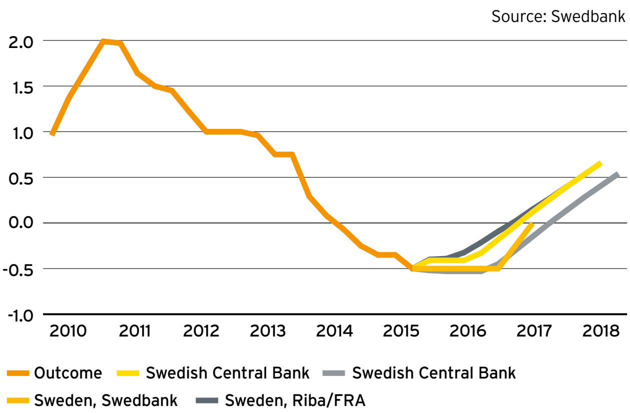
We expect broad-based growth of about 3% to continue in 2016–2017. Although this is satisfactory, at about potential, it keeps policymakers complacent. Yet, despite relatively good growth, income convergence with the euro area average has slowed. At the same time, a tightening labour market and recovery of credit growth may briefly boost spending and GDP growth to over 4%; this possibility has risen recently.

Lithuania – investments surging, finally

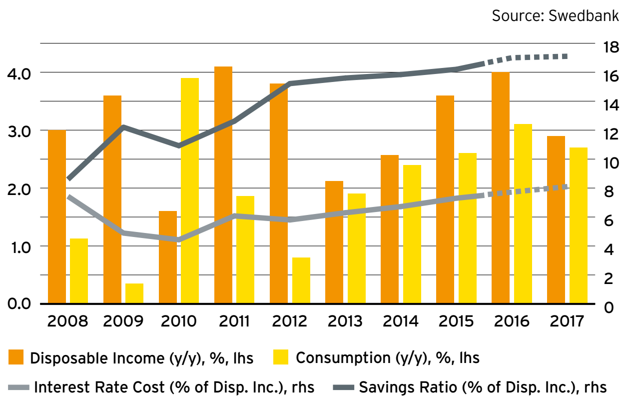
After last year's seismic shifts, when exports of Lithuanian goods to Russia shrank by 50%, GDP growth is set to double in 2016, before cooling off somewhat in 2017. This is due not only to increasing purchasing power and confidence of consumers, but also to a long-awaited pickup in business investments. Upcoming parliamentary elections have encouraged the government to embark on a spending spree, further stimulating growth, but at the cost of a larger budget deficit.

Source: Swedbank Economic Outlook, January 2016

Sweden: Repo Rate Path (%)



Sweden: Household Consumption & Savings



CHANGED DEMOGRAPHY
IS PUTTING PRESSURE ON THE SWEDISH PROPERTY MARKET

The share of the world's population that lives in the major city areas increased from 29% in 1950 to around 50% in 2009. By 2030 the share living in major cities is expected to reach 60%, and by 2050 as much as 70%. This trend is also very obvious in Sweden. Currently Stockholm has the highest population growth of all the cities in Europe, followed by Copenhagen, Oslo and London. Over the next five years, up to 2020, the population of Stockholm is expected to grow by a full 11%.

Sweden's urbanisation

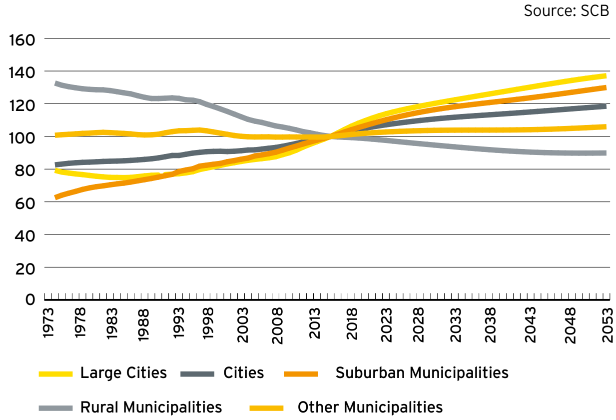
In the next few years Sweden will experience a record population increase. Between 2016 and 2018 the annual population rise will lie in the bracket 1.3% to 1.5% a year. This can be compared with the previous strongest year of population growth – the first year after the Second World War – when Sweden's population increased by 1.3%. According to forecasts by SCB (the Swedish statistics office), Sweden will pass the ten-million mark in its population in 2016 and will have over 11 million inhabitants by 2025. This represents an average increase of 110,000 people a year. At the same time the rise in population will be increasingly concentrated geographically. Between 2015 and 2030 the country's population is expected to rise by more than 1.6 million people, and the greater part of this increase will take place in the three major city regions.

Today our three major-city regions represent 53% of the country's population. Up to 2020 they are forecast to absorb 55% of the country's population increase. Of the cities themselves Gothenburg and Malmö will absorb 50% of their respective region's total increase while Stockholm will absorb 40%. At the same time this means that a large proportion of Sweden's other cities and municipalities will also continue to grow. It is really only the sparsely populated rural municipalities that are expected to show a negative population trend.

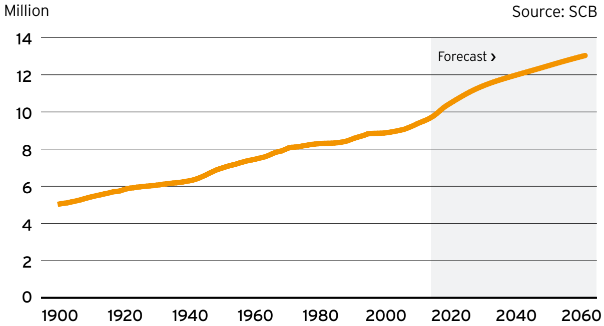
In the future, the migration into the major city regions will result in the inner city areas becoming denser, but also in the major city regions containing several cities with their own city centres. By 2025 there is expected to be an ever increasing number of people in the commuter catchment areas of the growing major city regions. The surrounding rural areas are already quite densely populated, especially the parts located close to a transport hub or station. The countryside and smaller places outside the commuter corridors have had negative population growth for a long time. Urbanisation means that this trend is continuing.

Sweden's population is living longer, more children are being born, and immigration continues to be high. Much of the working population lives in the major city regions, while the proportion of older people is higher in the countryside. In addition, the countryside is losing many young adults, since this age-group is moving to the major-city regions or university towns. A disproportionate number of young women are moving. In general young people often want to live in the major city regions and take part in their huge choice of jobs, activities and culture. But when they come to build a family other factors control where and how they want to live. Closeness to, for example, schools, care facilities, green areas and communications, together with access to work, then becomes important. There is also now a trend that people remain in inner areas of the major cities even after having children.

Population Growth Distribution



Sweden's Rising Population



»Sweden will pass the ten-million mark in its population in 2016 and will have over 11 million inhabitants by 2025«

+2%

ESTIMATED POPULATION GROWTH GENERATED BY IMMIGRATION 2015 AND 2016

Over the past 40 years it is the suburban municipalities that have had the largest population growth of 70%, while population in the rural municipalities has fallen by 20%. Population in the three major cities increased by 11% and in the other large cities by 20%. The pressure on the suburbs has led to increased residential building and a spreading of new housing into the towns' surroundings. In recent years discussions about raising the density rather than spreading outwards have become increasingly widespread, with the aim of reducing pressure on additional areas and instead increasing the effective use of already developed land and existing infrastructure.

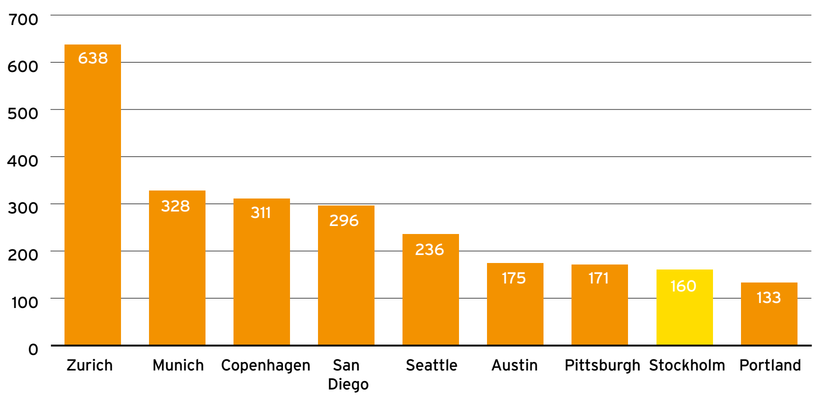
The refugee situation

During the autumn the EU, and Sweden in particular, has been faced with a huge wave of refugees, coming primarily from Syria as a result of the civil war there. In November 2015 about 1,500 people a day sought asylum in Sweden which, relative to population, was the largest number anywhere in Europe in this serious refugee situation. One in every fifty EU inhabitants is Swedish, but one in every seven refugees in Europe is seeking asylum in Sweden. The Swedish Migration Agency estimates that about 163,000 asylum seekers came to Sweden in 2015, and the forecast for 2016 is up to 170,000 people. About two thirds of those seeking asylum in Sweden get residence permits. This would mean that Sweden's resident population could increase by up to 223,000 people just in 2015 and 2016 as a result of the critical refugee situation. The scale of the immigration represents a population increase of about 2% of today's population. Since the flows of refugees are very hard to predict, it is almost certain that the forecasts produced by SCB have not been able to take full account of their impact, which implies an even stronger population growth in Sweden in the next few years from a level that is already historically high.

Although a massive immigration puts great pressure on the Migration Agency and the country's municipalities initially, the overall consequences are predominantly positive. Blackrock predicts that the great inflow of refugees into Europe will drive GDP growth upwards in the countries where the refugees finally settle. Countries such as Sweden and Germany to which the refugees are choosing to come should therefore benefit most. The increase in government spending that the reception of refugees has as its short-term consequence leads in the long run to GDP growth: according to Blackrock, a 1% increase in government spending results in a real GDP growth of 0.3%. Swedbank predicts that the inflow of refugees will increase Sweden's GDP by a total of 0.8% up to 2017.

Population Density (persons per square kilometre), 2014

Source: Stockholm Chamber of Commerce



The large number of refugees creates great pressure on the public sector, not only on the Migration Agency's capacity to scrutinise asylum seekers and arrange temporary accommodation but also on schools, social services and care services. The Migration Agency estimates that it was short of housing places for between 25,000 and 45,000 asylum seekers at the end of 2015. This has shown up on the property market as affecting properties of types well suited as refugee accommodation, which have seen a strong price-rise during the autumn. As a result pressure has grown on the market for asylum accommodation, and players who were already active have bought up more properties to meet the growing demand. Unfortunately a larger number of less scrupulous players have also begun to move into this market in order to make a fast buck. An increase has also been noted in the number of applications for temporary permits to build modular housing that can, for example, be used as asylum accommodation.

Asylum seekers who are currently being placed in refugee accommodation in rural communities will in time mostly move to the major city regions when they get residence permits and can choose where they want to live. Job opportunities and access to networks are significantly greater than in the rural communities. The long processing times of the asylum process mean that the increased pressure on the hous-

»The Migration Agency estimates that it was short of housing places for between 25,000 and 45,000 asylum seekers at the end of 2015«

ing market resulting from the high inflow of refugees in 2014-2015 has not yet had its full effect. It is almost certain that the situation will worsen further in 2017 when large groups of new arrivals can begin to move to the major city regions.

Population density

Stockholm, Gothenburg and Malmö in particular, but also the main regional cities and medium-sized Swedish cities, are all finding it hard to provide housing in pace with the increase in population. There are many indications that (especially in Stockholm) this is making it hard for the cities to retain a skilled workforce, which in the long term hampers growth. In particular, technology start-up companies in the Stockholm region are indicating that this problem is a clear barrier to their future expansion.

The Stockholm Chamber of Commerce has carried out a comparison with its 'global peers' which indicates that Stockholm ought to be able to become much denser, which would permit greatly increased housing development. The same conclusion can be drawn for all Sweden's major cities and regional cities. Inability to tackle the enormous housing shortage currently prevailing in Sweden will hamper the country's growth and its international competitiveness.

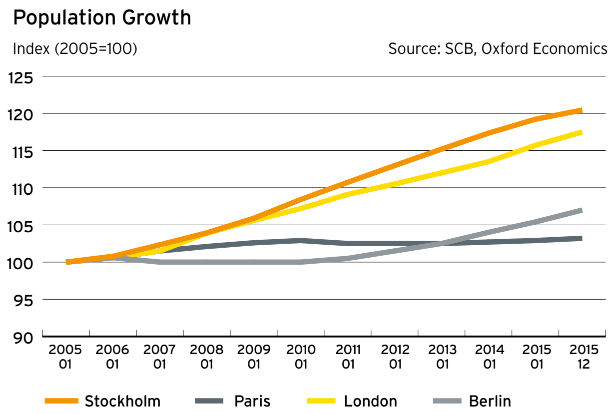
Urbanisation and property prices

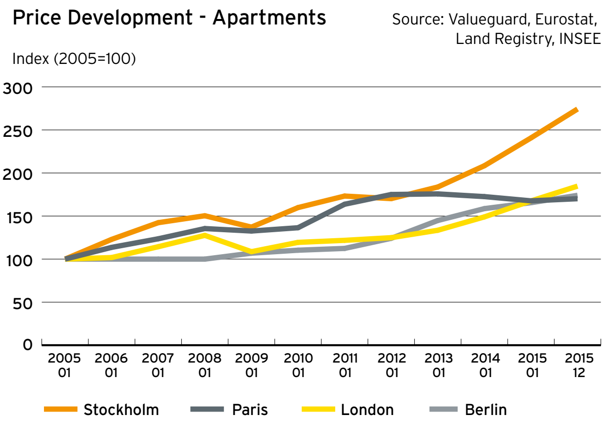
By means of an international comparison of population growth and property prices in some of Europe's capitals over the past 11 years, we see plainly how the strong urbanisation in Sweden, and especially in Stockholm, is creating an immensely strong pressure on the property market, resulting in steeply rising apartment prices. When we compare Stockholm and London, which have the most similar population growth over the period – Stockholm +20% and London +18% – we see a large difference in the growth of apartment prices, where London's prices grew by 85% during the period while Stockholm's prices grew by no less than 174%. The trend naturally has no single explanation, but factors such as a regulated rent market, excessively low new production, slow planning processes and high taxes on moving house are extremely likely to lie behind the explosive trend in Stockholm. Since Stockholm is currently growing faster than any other European city, there is nothing that suggests any slowing down, at least in the short term.

Consequences for the property market

Sweden's increase in population is faster than ever before, and is even more concentrated geographically. But the trend in the composition of the population looks very different depending which part of the country is being studied. The cities of Stockholm, Gothenburg and Malmö already have significantly younger population pyramids than the average for the country. This trend will strengthen further, and in these areas there will be very little future growth in the 80+ age-group. But people over 80 are becoming more numerous in percentage terms in some small and medium-sized municipalities.

Generally in Sweden the age-pyramid will shift towards a younger population between now and 2030.The 0 to 19 age group will be the category that grows most in numerical terms, partly because of a large cohort of people born in the 1990s who are starting to have children, and partly because of the large-scale immigration where a high proportion of the





»Sweden's property market is faced by major challenges due to the demographic changes«

arrivals are families or young people. The 80+ age group will also grow both in number and as a share of the country's total population up to 2030. This is creating major challenges for Sweden, not least as regards total tax revenues. We will have fewer people of working age who will have to support the growing population of both young and old people.

There is naturally also a strong correlation between population growth and demand for properties. Overall, the changed distribution of the country's population is leading in the first place to increased demand for schools, care properties and housing, but it is also creating as a further step an increased demand for more office and retail space. For Sweden as a whole Boverket (the Swedish National Board of Housing, Building and Planning) is indicating that 700,000 new homes will be needed by 2025. Of these, 262,000 will be needed in the Stockholm region, which represents a rate of new production of about 26,000 homes a year. Average new production has been considerably lower than this in recent

SEK 1,500 BILLION

INVESTMENT REQUIREMENT SWEDEN 2030

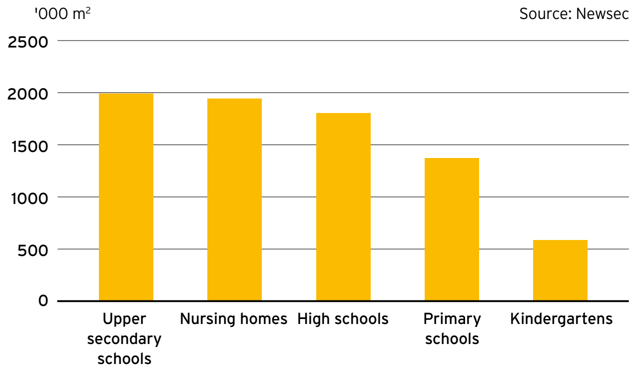
years, with only around 10,000 to 12,000 new homes a year. In Västra Götaland 78,000 new homes will be needed up to 2025, including 57,000 in the Gothenburg area. Malmö also has an extensive need of new production, estimated at 35,000 new homes up to 2030. Rural municipalities need more young inhabitants to counter an ageing population and reduce the maintenance burden, whereas the major city regions currently have a good demography but a glaring shortage of housing. The refugee situation is causing current depopulated areas with empty properties to see a rising population and a better balance in their housing stock. Today there is a housing shortage in large parts of the country and no longer just in the major-city regions.

As regards the need for public properties, Newsec, with the help of SCB's population forecasts running up to 2030, has estimated the floor area of new premises that will be needed to maintain important communal functions. About 2 million m^2 of new housing for old people, about 5 million m^2 of new school space and about 0.6 million m^2 of new kindergarten space - a total of 7.7 million m^2 - will be needed in Sweden up to 2030. The 700,000 newly built dwellings that must be produced represent about 42 million m^2 of residential space. Sweden thus has a total new-production requirement, for both public and residential properties, of nearly 50 million m^2 over the next 10 to 15 years. Assuming a new production cost of SEK 30,000 per m^2, this represents an investment requirement of around SEK 1,500 billion during the period. Large amounts of capital will therefore need to be allocated to new production in the property sector. Parts of this capital should be able to come from pension funds, for example, which continue to be underexposed to properties.

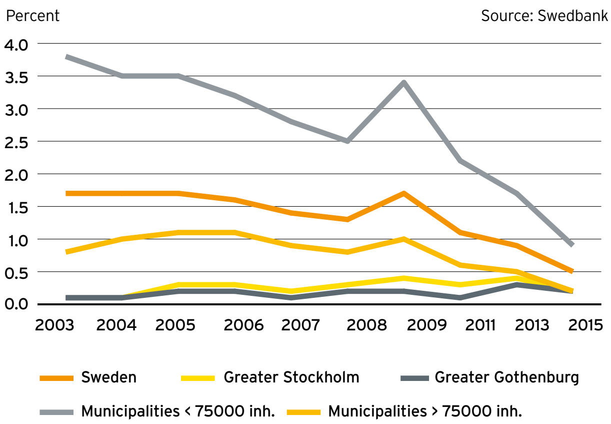
Sweden's property market is faced by major challenges. In the short term it is a matter of finding housing of worthwhile quality for all asylum-seekers in Sweden. In the longer term it is a matter of building housing, schools and old people's accommodation for a fast-growing population with a larger proportion of both old and young people. Since the strong urbanisation is leading to ever more people moving to the major cities, the cities of Stockholm, Gothenburg and Malmö face an ever larger need for properties adapted to a younger population. We also now face a great need of new production of housing for old people all over the country. It will be very hard to solve the severe housing problem through new production alone. It is obvious that changes to regulations will also be required that enable us to exploit the existing stock in a more effective way.

Sources: Stockholm Chamber of Commerce, Investment & Pensions Europe, Boverket, DN, Stein Brothers, Fastighetstidningen, The Local, Migrationsverket, SCB, Swedbank

Required New Construction 2015-2030



Vacancy Rates - Apartment Buildings



»Relatively good access to financing and lack of high-yielding alternatives are factors contributing to a high interest in property«

THE SWEDISH PROPERTY MARKET

CONTINUED HIGH TRANSACTION VOLUMES THROUGHOUT 2016

The investment market

The past year, 2015, has continued to show a strong Swedish transaction market. The total transaction volume amounted to over SEK 134 billion, with 298 transactions of SEK 100 million or more carried out. This figure was slightly below the record year of 2014 when 297 deals were made and more than SEK 149 billion was invested in property all over Sweden.

One factor contributing to the continuing high interest in properties in 2016 is the low interest rate, which the Swedish central bank decided to cut to -0.50% at its last meeting in February. The shaky global stock markets and low yields on the bond market are other factors. Developments in the Swedish economy have been somewhat stronger than expected, while uncertainty remains globally. There has been an upward trend in inflation, but it is not stable yet. With an uncertain environment and to ensure the resilience of the upturn in inflation, the country's monetary policy needs to be more expansionary to ensure that inflation continues to rise towards the target of 2%. The low interest rate environment is therefore expected to continue until 2017, which will sustain the good financing climate. Relatively 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 throughout 2016.

An assessment of 2015 shows that private property companies and property funds were the largest groups of market players in terms of their acquisitions. Together they accounted for nearly 50% of the transaction volume. Property funds and private property companies also formed the largest groups of sellers, accounting for 62% of the volume. The private property companies have thus been active on both the selling and the 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 in general are still short of property holdings. Listed property companies are also in a good investment position due to the fact that properties have been a good alternative to other types of stock market investments.

There has been a continuously high interest in properties in Sweden's smaller regional towns and cities. During 2015 they accounted for 45% of the total transaction volume. Of the major cities, Stockholm has dominated geographically with 44% of the total volume, although only four of the ten largest transactions actually took place in the Stockholm area. The largest transaction in 2015, at SEK 9.5 billion, was Blackstone's purchase in July of properties in various segments and locations (totalling 659,000 m^2) from the Norwegian company Obligo.

Gothenburg and Malmö both lost market shares during 2015 compared with 2014. The largest transaction in Gothenburg in 2015 was Victoria Park's purchase of two residential properties for SEK 925 million. In Malmö the largest transaction was Wihlborg's purchase of two office properties for SEK 850 million.

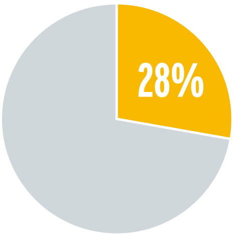
In 2015 office properties have been the dominant investment category, taking a 32% share of the market. The second largest investment category in 2015 was residential, with 22%. There has also been a continued strong interest in the retail segment, which accounted for 18% of the total transaction volume in 2015. The third-largest transaction of 2015 was Grosvenor's purchase of Skärholmen Centrum from RBS for SEK 3.5 billion. Skärholmen Centrum is located in greater Stockholm and has a total lettable area of 106,000 m^2.

The share taken by foreign investors reached 28% in 2015, compared with 18% in 2014. 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. Newsec believes that the transaction market will remain strong during 2016 and will be characterised by major structural and portfolio transactions. This makes it likely that the foreign investors will further increase their share of the transaction market against the levels of 2015. In addition, the Swedish property market is viewed as a very transparent and secure market where it is easy to carry out transactions. Shaky world stock markets with potentially some way still to fall, a low yield level on the bond market and continued low interest rates, in combination with a strong Swedish economy, bode well for the Swedish property market.

The office market

Stockholm

Newsec estimates the total office stock in Greater Stockholm at approximately 12.3 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 combining several existing offices and setting up new operations in the inner suburbs. The forecast final figure for new office projects to be completed in Greater Stockholm in 2016 is 136,000



FOREIGN INVESTORS

SWEDEN 2015

m², corresponding to approximately 1% of total stock.

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, nearby communications to both the inner city and Arlanda Airport. Recent decisions to expand the infrastructure and public transport will be central for the 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 rail line (part of the national railway network) will have a positive impact on the CBD office area of Västra City when it is ready in 2017. The new line will increase passenger capacity through the inner city, with two new stations at Stockholm City and Odenplan. Two other 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.

There are few speculative office development projects scheduled for completion in the coming years. The projects in progress are Fabege's Scandinavian Office Building and Uarda 6 and 7 in Arenastaden, NCC's Torsplan stage 2 at Norra Station in Stockholm inner city, and Skanska's Stockholm Seaside in Hammarby Sjöstad. All of these projects are fully or almost fully let before completion.

The recent relocation of several large companies greatly reduced leased space in Stockholm CBD in the short term. However, the strong and office dependent service sector in Stockholm, in combination with the shortage of new office building projects in the CBD, has resulted in today's low vacancy rate of 4%. The prevailing low vacancy level has led in turn to a number of new development and rebuilding projects in, or adjoining, the CBD. One notable project is AMF's rebuilding of Swedbank's old premises in Gallerian. The project is called Urban Escape and will provide 35,000 m² of office space when completed in 2018. Vasakronan's total refurbishment of Klara C, which will provide 28,000 m² of office space, is scheduled for completion during 2016.

Future relocations and refurbishments have not yet affected the vacancy rate, since many moves will take place during the next couple of years at the time that the new projects are being finalised. Mästerhuset, a large rebuilding project in Stockholm City, was completed in the autumn and comprises 30,500 m² of office and retail space. Mästerhuset was fully let at completion. The expected vacancy rate for office space in Stockholm CBD by the end of 2016 is about 3%.

The average rent level for office premises in Stockholm CBD is SEK 5,000 per m². Newsec expects the market rent to rise to SEK 5,300 per m² by the end of 2016. Top rents above SEK 6,000 per m² have been confirmed by some of the major office owners in Stockholm CBD. This is a result of the small supply of modernised office spaces in the CBD together with high demand. The rise in market rent is expected to continue into 2018.

Gothenburg

The commercial office market in Gothenburg region comprises an office stock totalling around 4.6 million m², which includes the stock of neighbouring municipalities such as Mölndal and Partille. The Inner City comprises a number of districts and covers a large geographical area. Its office stock totals around 900,000 m². In the next three years, Newsec estimates that about 150,000 m² of office space will be added to the market in Gothenburg, with the largest areas arising in the Almedal/Krokslätt district (about 43,000 m²) and Ullevi-Heden (about 28,000 m²). In the CBD there will be no major additions through new construction. The vacancy rate in Gothenburg CBD currently stands at 4.7% and is expected to creep down to 4.3% at the end of 2016. It remains difficult to find modern office premises over 1,000 m² in the CBD. The market rent in Gothenburg CBD is now SEK 2,500 per m² and the top rent is estimated at SEK 3,150 per m². Newsec expects that the rental market in Gothenburg will remain stable, since demand is expected to remain good in combination with relatively low new production.

Malmö

The commercial office stock in Malmö totals just over 1.97 million m². The single largest submarket is Malmö CBD. Addition of new office space has been good in recent years and in 2015 significantly more office space was completed and has added a total of 53,500 m² to Malmö's office stock. For 2016, new building projects totalling about 32,000 m² have been announced. The vacancy rate in Malmö CBD crept down to a level of 6.5% at the end of 2015 and is expected to rise to 7.0% by the end of 2016. The rent levels have been stable at all submarkets in Malmö during 2015. In Malmö CBD the market rent is estimated at around SEK 2,150 per m², while a top rent of around SEK 2,800 per m² has been reported. Newsec forecasts stable rent levels during 2015, with an upward tendency.

»There has been a continuously high interest in properties in Sweden's smaller regional cities«

The retail market

Retail trade in Sweden showed positive growth in 2015, and the retail property segment accounted for 18% of the total transaction volume in 2015 compared with 10% 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 growth in November 2015 compared with the same month of 2014 was 5.2%, which was above the full-year forecast of 4% from HUI (the Swedish Retail and Wholesale Trade Research Institute). According to HUI, retail sales are expected to increase by 3.5% in 2016, measured at fixed prices.

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) up to 2022. The growing population along with the rising trend towards 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 both customers 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 Stockholm CBD. However, to achieve profitability in all these new stores and shopping centres at a time when e-commerce is taking ever greater market shares will be a huge challenge for the retail sector. In 2015 e-commerce accounted for 7% of total retail sales in Sweden. This is still only half of the 15% market share seen in the UK, which is the world leader in retail e-commerce. 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, where good restaurants, cafes and service play an important part.

In November the formal opening of the 100,000 m^2 Mall of Scandinavia, the latest new large shopping centre which is also the biggest in Scandinavia, took place. The centre is located in Arenastaden in Stockholm and consists of 230 stores and restaurants. There has been a great interest in the new centre and it achieved one million visitors just 19 days after the opening. Meanwhile PUB's building at Hötorget in the middle of Stockholm, one of Stockholm's oldest department stores, is undergoing rebuilding as a hotel, and during the spring of 2016 the Scandic Haymarket Hotel will open in its place.

In Greater Gothenburg there are plans for developing approximately 125,000 m^2 of new retail space. New development in Greater Malmö is expected to be substantially lower, mainly because several large projects have been finished during the last two years.

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THE NORWEGIAN PROPERTY MARKET

AFTER A RECORD-BREAKING 2015, NEWSEC PREDICTS A MODERATE SLOWDOWN IN 2016

Norway's population first exceeded 5 million in 2012, representing an increase of over 1.7 million since 1950. Annual population growth was close to 1% just after the Second World War, mainly due to a high birth rate, then fell to a third of a per cent in the 1980s, but has since increased to over 1%. Today net immigration contributes more to population growth than natural increase.

Currently one person in ten in Norway is aged 70 or more. This share is expected to rise to about one person in five by 2060 as the post-war generations age. Although Norway is ageing, however, its population of old people will be far lower than in many other European countries.

At 1 January 2015 there were 669,400 immigrants and 135,600 Norwegian-born children of immigrant parents in Norway. The total of 805,000 people amounted to 15.6% of the population, and comes from every part of the world. Although the increase of 45,800 people in 2014 was relatively low, the current pressure from would-be migrants into Europe is likely to see it rise again in Norway.

Within Norway, the numbers of movements of people within municipalities and between municipalities both reached a record high in 2014. However, the overall trend towards increasing centralisation movement from the countryside into towns and cities and their surrounding areas continued at the same steady rate as for the past 30 years. The counties close to Oslo and Trondheim had the largest domestic migration gains. All counties had an inflow of foreign immigrants. Altogether these movements are positive for the major part of the Norwegian property market, and are creating an increased demand for housing in particular.

The investment market

2015 was an extremely good year on the Norwegian investment market, breaking the previous all-time high by a significant margin. The previous record was set in 2014 at NOK 77 billion, but the total transaction volume for 2015 was about NOK 120 billion.

The search by domestic and global investors for property investments with attractive risk-adjusted returns has resulted in a wave of capital flowing into the Norwegian property market, leading to an increase in investment activity and a prolonged core yield compression. This has led in turn to a significant appreciation of value which has paralleled an increase in investment activity and a noteworthy expansion of portfolio, entity level and large single-asset transactions.

During 2015 the prime office yield fell from 4.75% in Q4 2014 to 4.25% in Q4 2015. Another noteworthy yield compression occurred in the logistics market where properties with long contracts are now priced 50–75 basis points lower than in 2014. The office segment represented about 45% of the total transaction volume while retail represented 41%. About 43% of all transactions in Norway occurred in and around the Oslo area, and foreign investors accounted for some 43% of the volume in 2015 – nearly double the figure of 26% in 2014. The top ten transactions accounted for around one third of the total volume.

Newsec predicts that we will see a moderate slowdown in 2016, with a total transaction volume probably around NOK 75 billion. In historical terms this would still be a very good year. However, Stavanger will probably fare worse, with higher unemployment and falling property values.

Falling oil prices, higher vacancy rates and sales to secure gains are factors that may affect the market negatively. Regulatory risk concerning banks (Basel 3) and life insurance companies (Solvency 2) may also affect the market, leading to low liquidity and low appetite for investment.

Allowing for longer acquisition processes could lead to a further increase in the percentage volume taken by foreign

»2015 was an extremely good year on the Norwegian investment market, breaking the previous all-time high by a significant margin«

investors in 2016. Class-B retail properties will take a larger share of the market. After several years of low growth, the turnover for the 60 largest shopping centres in Norway rose by about 5.7% in 2015, far above our expectations.

Funding became more difficult to obtain during the autumn of 2015, due to higher borrowing rates from banks. Risks concerning vacancy and falling rents have made long contracts more important than ever. The present low exchange rate imposed an effective discount on Norwegian property values last year.

The office market

Slow processes and a low number of signed contracts summarise the Norwegian office rental market in 2015. In recent years few large companies have been looking to move, which seems to be the main reason that larger buildings have had the greatest difficulties. Competition has been tough, and landlords have had to discard their dreams of finding major tenants and instead look for smaller tenants to fill their buildings.

Energy efficiency is the new trend and more companies now demand energy-smart and environmentally friendly accommodation. These buildings are cheaper to run and thus give tenants lower costs. Companies located in energy efficient buildings are also more attractive to new employees, and landlords appear more attractive in the market by gaining more stable tenants.

2015 has been a satisfactory year concerning searches, with tenants looking for both large mixed use buildings and offices, and although the office rental market felt slow during the year, rents rose steadily in all areas. The average rent level for office premises in Oslo CBD is NOK 3,650 per m^2. Newsec expects the market rent to rise to NOK 3,750 per m^2 by the end of 2016.

The retail market

Shopping has changed dramatically in the past half-century. People used to buy their daily necessities from small local shops and went to the city centre – to both department stores and specialist retailers – for major purchases and luxury items. The move to big grocery supermarkets and the cheaper land outside the city centre meant that shopping centres in suburban and out-of-town locations took over as the main retail arena for all functional items. Today, city centre shopping hosts a different form of shopping which focuses equally on social aspects such as eating out, conversation and leisure activities. In Oslo, the premier street Karl Johans gate now has a mixture of cafés, restaurants, small theatres and specialised shops located close together. The old Aker Brygge shipyard has been converted into a lively seafront promenade with entertainment, dining and ground floor retail.

Newsec values more than 100 shopping centres every year and has analysed all the centres in its database. In the period from December 2013 to December 2014 the unweighted average total rent increased by just 0.58%. This is far below the 2.1% rise in the CPI for 2014. Even in the larger centres (those valued at over NOK 500 million) rent increases were below 1%. For the greater number of small centres, rents rose by 0.44% in 2014. So why don't rents increase with the CPI?

Falling rents follow falling revenues, which encourage tenants to renegotiate their rent and demand discounts. The reason for the decline in revenue for traditional retailers is simple: consumers are increasingly shopping online.

Over the last five years online retailers have had a significantly higher growth rate than store trade. In 2014 e-commerce still accounted for only 4.6% of total retail, and early indications show that it will approach 6% in 2015. But this percentage is likely to go on growing in coming years and could threaten shopping centres' position in that tenants will desire fewer and smaller premises.

By 2020 stores may be losing NOK 50 billion in annual sales to online shopping. And their falling revenues will lead not only to falling rents in shopping centres but to rising vacancies, higher yields and lower property values for the real estate owners.

Shopping centres must thus follow the lead taken earlier by city centre shopping, by diversifying their offer to include leisure activities such as cinemas, bowling and restaurants that will draw people in. Size is also important. Shopping malls are getting bigger, and the number and variety of stores and leisure attractions are important in pulling in customers. Centres must also fight back by incorporating e-commerce into their own businesses, by encouraging their big-box and other tenants to link to their own warehouses for fast delivery, and in general by turning the purchase of goods into the consumption of services. Mobile retailing – the growing use of phones and tablets for 'showrooming' and price comparisons when on the move, and also for direct payments in store – must also be factored in.

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THE FINNISH PROPERTY MARKET
2015 – A YEAR OF LIVELY TRADING

Urbanisation is increasing rapidly in Finland, mainly due to employment related migration. This is having an effect on the property market and an especially strong impact on the Helsinki Metropolitan Area (HMA). The growth connected to the urbanisation is one of the main drivers for the increasing demand for real estate in markets outside the central area.

The immediate effect of the urbanisation can be seen in the residential market, where (together with other demographic changes) it has increased both the demand and the need for residential properties. The calculated demand for new dwellings in Finland is currently around 25,000 to 30,000 a year and will grow even higher with the increasing population from immigration. Increasing population works as an engine for the property markets. Infrastructure projects in the HMA, which are essential due to the urbanisation, are shifting the focal points of residential, office and retail area demand and changing the criteria for new-construction locations. This can already be seen near railway stations, where a significant number of new properties are being built. The Länsimetro extension of the Helsinki Metro, for example, is expected to improve the market position of office areas in Espoo located near the new stations.

The investment market

The property market activity that began in 2014 continued to rise in 2015, exceeding many people's expectations when the transaction volume reached EUR 5 billion. The transaction volume is matching the record years of 2006 and 2007 when it reached over EUR 5.5 billion. In 2012 and 2013 the transaction volume was only EUR 2 to 2.5 billion and in 2014 just over EUR 4 billion. The market and the transaction volumes for large properties in Finland have mirrored trends elsewhere in Europe. The lack of good investment properties and the low-yield levels in Europe's main market areas are continuing to drive investors to seek higher yields and to spread their risk in Scandinavia and Finland. On the other hand, domestic pension capital was passive on the buying side and looked to foreign investments and domestic funds for its risk-spreading.

In 2015 there were also opportunistic transactions with larger risks, typical examples being developments of office buildings classed as empty or half empty. The leverage from the low interest rates and competition with more interesting properties partly explains the relatively low-yield levels. Investors' interest is expected to widen geographically, especially among foreign investors that have an organisation in Finland. Capital flows were seen among a number of residential funds and special funds; there were many of these funds last year and their development is expected to continue.

The increased demand has had its effect on property pricing. Yield levels have started to fall in some of the best locations as competition has increased. Common factors attracting interest in properties are good location (e.g. the HMA), a modern building and long lease-maturity. The yield level of a prime office property in downtown Helsinki and nearby is below 4.5%. An unprecedented number of property transactions took place in and around the Helsinki city centre in 2015. At the same time, demand and transactions have spread to a wider area. The increased activity was shown last year in Finland in the shifting of interest to the best properties in the weaker areas and to the less desirable, 'class-B' properties in prime areas.

The HMA accounts for more than half of Finland's property market transaction volume in terms of value. One of the largest transactions there last year occurred when Ilmarinen Pension Insurance Company transferred fifteen office properties to the ownership of Antilooppi Ky, which is jointly owned by Ilmarinen and the Swedish pension insurance company AMF. Ilmarinen owns 50% of the company, whose property assets are valued at more than EUR 400 million. Altogether about twelve new foreign investors arrived in Finland, which partly explains the increased transaction volume. One of these new investors is the American-owned 'Blackstone Real Estate Partners Europe IV Fund' acting through Logicor, which is a Blackstone company specialising in logistics properties.

Investment activity is expected to remain relatively high in 2016, even though Finland's economic indicators seem weak and the tenant market is passive. The forecast transaction volume for this year is about EUR 4.5 billion, but this will depend on whether the financing climate and property ownership arrangements are similar to last year. Finland's property market yield levels are attractive to foreign investment capital and there is capital ready and waiting for investments in prime properties. However, slow economic growth together with banks' increasing caution will tend to slow down overheated property markets.

The office market

The HMA office market is still plagued by high vacancy rates and falling rents in certain areas, although office rents are continuing to rise in Helsinki CBD. Retail-property vacancy rates have also risen in some city-centre properties. The average rent level for office premises in Helsinki CBD is EUR 365 per m^2.

In the HMA office market the tenant has the upper hand. Vacancy rates are high and the amount of available office space will increase as space-efficiency

»Investment activity is expected to remain relatively high in 2016 and the forecast transaction volume is about EUR 4.5 billion«

becomes more important. Offices still use more than 20 m² of space per person on average, but in many multi-space offices the allocation is now closer to 10 m² per person. In this market situation, it is important to understand tenants' demands. Newsec has studied tenants' moving activities and the reasons behind the moves and has found that good accessibility and modern space solutions are the priorities. The problem is less severe in prime office areas than in less desirable locations. The areas around railway stations and other transportation hubs are among the primary location criteria for new office and retail properties. Minor recovery can be expected near railway stations with future rail projects, whereas areas outside the stations' immediate vicinities will face weaker demand, especially if the property stock is outdated.

The retail market

The Finnish retail market has also undergone changes. Several new operators have entered the market in recent years and the nature of the market has changed to a multi-channel form. The traditional retail operators have adapted and tried to keep up with the changes. During the next five years, a number of shopping centres will be built in the HMA along the rail lines and the Länsimetro extension, the biggest of which are REDI in Kalasatama, Tripla in Pasila and another planned in the Kivistö area.

The residential market

The urbanisation of the HMA has increased the demand and need for residential construction. The Kehärata and Länsimetro railways have created attractive locations for residential construction, and the City of Vantaa, for example, has planned a significant number of new building rights near the Kehärata stations. However, differences between growth centres and smaller municipalities are tending to increase in response to such factors as investments, the activities of corporations, employment, demographics and changes in migration. Differences between areas are now very obvious, and similar development is expected to continue in future.

The housing market is clearly divided into two, between households and investors. Investments in rental apartments are still popular, and competition has already reduced yields on apartment investments, whether they relate to an individual apartment or a portfolio, and made it challenging to increase returns. On the other hand building of non-subsidised housing can be seen in the markets, rent increases have stopped, and in many places, e.g. in the HMA, competition for good tenants has increased in the last few years. High occupancy rates especially in growth centres are strong bases for residential investments.

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THE DANISH PROPERTY MARKET
A CONTINUED INCREASE IN DEMAND ON THE PROPERTY MARKET

According to Statistics Denmark, Greater Copenhagen is projected to see a population growth of around 15% over the next 25 years. Strong population growth is a key driver of growth in the housing and labour markets in the region. As a result, new construction, urban renewal and redevelopment as well as infrastructure upgrade schemes are booming in Copenhagen, with brisk activity in the harbour areas north and south of the city centre and in a number of new development areas. The development schemes involve commercial and residential newbuilding as well as conversions or upgrades of disused industrial and office facilities.

Changing migration patterns in the country are a key factor. Historically, the young residents of Copenhagen have tended to leave the city after some years, typically settling down elsewhere to start a family. Now migration patterns appear to be shifting. Copenhagen city centre has become much more attractive for young couples, who value the short distances to work and the city life. The City of Copenhagen has also made efforts to become more welcoming to families.

The investment market

Danish GDP growth has been positive but modest for the past two years. Overall, future prospects are favourable, with growth rates around 2% for 2016 and 2017. A key driver of the growth is believed to be an increase in consumer spending, with export growth expected to follow suit from 2016. In addition, the Danish labour market is picking up, with a slight increase in overall employment figures and a continued downtrend in unemployment.

In the years preceding the financial crisis, long-term bond yields were on a par with the net initial yields on prime (first-class) investment properties, i.e. 4%–5%. Today therefore we are seeing prime investment properties with high cash-flow security producing unprecedentedly high income returns relative to (for example) 10-year government bonds. Today's investors seem to consider a long-term lease with a strong covenant tenant to be a weightier investment consideration than property location. This may be explained by the fact that opportunity returns on comparable assets in the bond market have plummeted in recent years. The attractive risk-adjusted returns on property relative to other asset classes have served to increase transaction volumes and reduce yield requirements on prime property in particular.

Having risen steadily from 2013 to 2015, total returns on investment property have almost bounced back to the level of 2006. In this period, total property returns greatly exceeded benchmark bond returns. The increase in property prices is driven mainly by a stronger demand for High-Street properties, for head office properties let on long leases and for residential rental properties. The change in market conditions in the

»The increase in property prices is driven mainly by a strong demand for high-street properties let on long leases and for residential rental properties«

aftermath of the crisis, in particular in the major Danish towns and cities, has fuelled the demand for prime property, whereas secondary property has been less in demand.

Recent changes in the risk-to-reward ratios of liquid asset classes in particular are likely to make investors reconsider current portfolio compositions, which may well work in favour of the property market and consequently increase exposure to property assets.

Broadly speaking, the current market is characterised by high liquidity. This is due among other things to a highly volatile stock market, larger and still increasing placement requirements from a series of investors, and a limited supply of assets offering balanced, risk-adjusted returns. As a result, the property market has seen a continued increase in demand in 2015.

The volume of commercial and investment property transactions rose throughout 2014 to EUR 4 billion, and this trend continued in 2015 when the total transaction volume reached EUR 4.8 billion. So far, the brisker transaction activity has been largely concentrated in and around Copenhagen and to some extent Aarhus, with the prime segment the most highly coveted. One of the main reasons that investors focus on Copenhagen and Aarhus is their continued urbanisation. Since the Greater Copenhagen market for prime property is limited, it is believed that the stronger demand will feed through to the secondary market and result in a higher number of transactions. In fact, many foreign investors who specialise in the redevelopment of 'difficult' properties have shown an appetite for the secondary segment. In the past, domestic pension funds in pursuit of low-risk assets invested almost exclusively either in single tenant head office properties let on long leases with strong covenant tenants or in residential rental properties. However, in 2014 and 2015 they have become active players in a broader segment of the market. This reflects a higher risk tolerance, as a result of which pension funds have now started to invest in, for example, the older housing stock of Copenhagen. Such properties typically require proactive asset management in order to realise their full potential for added value. In the past, no pension fund would have invested in such properties.

The office market

On the back of higher employment rates, positive demographics and a brighter economic outlook, investors have become more aggressive in the investment market for office properties in Copenhagen CBD, where falling vacancy rates have made it increasingly difficult for users to find up-to-date office space. Although domestic institutional investors seem reluctant to accept office yields below 4.50%, the demand has driven prime CBD office yields down to 4.25%, a level acceptable to both domestic property companies and a large number of international investors.

The high vacancy rates in secondary properties and locations have put market rents under serious pressure in almost all CBD locations. Prime properties and locations, on the other hand, have seen stable or slightly rising market rents. However, the top rent remains flat at around DKK 1,600–1,700 per m² due to the continued supply of available development sites at Ørestad, Sydhavnen and Nordhavnen.

The retail market

The Copenhagen High-Street investment property market remains by far the most active and liquid property market in Denmark. Both added value and core international investors are actively pursuing opportunities in this segment, which in 2015 drove prime yields down from around 4.00% to close to 3.75% and sometimes lower.

By far the largest transaction of 2015 involved the Thai company Central Group, which acquired the Illum department store building for a reported DKK 2.5 billion. However, a subsidiary of Central Group, Rinascente, was already a tenant in the building on a 30-year lease, so the buyer should be considered an investor with a special interest. Another major transaction involved the German company Patrizia, which acquired the Galleri K shopping arcade from Bank of Ireland at a price of about DKK 1.3 billion, plus some DKK 200 million for the offices on the upper floors, acquired in a separate deal from the Danish pension fund MP Pension. The net initial yield was estimated at approximately 3.75%.

The limited supply of well-located retail premises in Copenhagen city centre, especially in the High-Street market composed of Strøget and Købmagergade, drove up retail rents in prime locations in 2015, whereas rents remained stable at the lower end of Strøget and the streets running off it. Today's prime High-Street rent is about DKK 19,000 per m².The growth in consumer spending is expected to continue to put upward pressure on prime rents. The thriving retail sales in the city centre may also be explained in part by its high-density and concentrated shopping environment, which appeals to tourists.

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THE BALTIC PROPERTY MARKET

2015 – A RECORD-BREAKING YEAR FOR THE BALTICS

Lithuania: Still an attractive yield gap compared to Western European levels

For several years Lithuania has lost about 1% of its population every year. The main reasons are an ageing society and a negative net migration. About 20,000 more people emigrate each year than immigrate. At the end of 2015 Lithuania had a population of 2.9 million people.

The process of urbanisation is well seen in Lithuania. In each of the last four years the population of Vilnius has grown by about 0.5%. However, the capital city is the only region in Lithuania showing population growth. More than 540,000 people currently live in Vilnius, and the figure is likely to go on increasing in the near future.

The investment market

2015 was a record-breaking year for the Baltics. For the first time in history the combined transaction volume of the three countries exceeded EUR 1.1 billion. Lithuania accounted for 27% of this with almost EUR 295 million. The most active investment segment in Lithuania was the retail market, which represented more than 53% of the transaction volume in 2015. The office segment was also active, with 34%. In 2016, no significant increase in the country's property investment volume is expected.

Although yields have fallen significantly in recent years, there is still an attractive gap compared to Western European levels. Average yields for prime retail and office assets in Vilnius remain around 7.00%, with the most attractive properties being bought at yields up to 50 basis points lower. Secondary properties produce yields around 8.00%. Local Baltic, Nordic and Eastern European investors are still the key players in Lithuania, but more interest from Western European investors has been noticed recently and this trend is likely to increase in the near future.

The office market

At the end of 2015 the stock of modern office premises in Vilnius was 442,400 m^2, or 0.82 m^2 per capita. During the year the total office stock increased by 37,900 m^2 of gross lettable area or by 9.4%. During 2016-2017 it is expected that the Vilnius office market will increase by a further 140,000 m^2 of modern office space. Currently eight out of eleven planned projects in Vilnius are under construction, and 51% of the area in the new developments is expected to be Class-A.

Vacancy in Vilnius prime offices fell below 2% at the beginning of 2014, and by the end of 2015 vacancy for Class-A properties was below 1%. While the demand for prime modern offices in Vilnius remains high the vacancy is not expected to increase noticeably, at least until several new large projects are completed by the end of 2016. It should be noted that new buildings coming to the market are demanding slightly higher rents quarter-by-quarter, including paid parking places and triple net charges. The trend of pre-lease is returning to the Vilnius office market and agreements are often signed 6–9 months in advance.

The average rent level for office premises in Vilnius CBD is EUR 185 per m^2. Newsec expects the market rent to rise to EUR 190 per m^2 by the end of 2016.

The retail market

At the end of 2015 the stock of modern shopping centres in Vilnius was 347,500 m^2, or 0.64 m^2 per capita. After a break of a few years in shopping centre developments in Vilnius, the foreign investor Nantucket Holdings completed the 18,000 m^2 first stage of its new Nordika project late in 2015; the second stage of 22,000 m^2 is expected to open in summer 2016. Two other investors have updated their plans to start the developments of SC Audejas (45,000 m^2) and the second Akropolis shopping centre (up to 100,000 m^2) in Vilnius, but no earlier than 2016-2017.

At the end of 2015 the average vacancy in the largest shopping centres in prime locations in Vilnius stood at around 2%, while the trend in rents remained slightly upward. Demand in the retail market is increasing since the majority of retailers have expansion in their plans. All of the largest shopping centres are attracting new 'big brand' tenants and improving their tenant mix by replacing small and medium local brands with internationally famous brands such as H&M, Next, NS King, Sports Direct, Pier 1 and others.

Latvia: Showing a strong economic recovery after the downturn of recent years

Latvia has shown a strong economic recovery after the downturn of recent years. However, the country recorded a dramatic decline in total population during these years, and this trend is continuing. At the end of 2015 Latvia had a population of 1.98 million people.

Even the capital city Riga is suffering from emigration. Over five years, its population has declined from 670,000 to 640,000 people. The decline in Latvia's population is caused by emigration in search of employment and a sharp fall in birth rate.

The investment market

2015 was nearly a record-breaking year for Latvia's investment market, with a total transaction volume that exceeded EUR 347 million (31% of the total Baltic

»Although yields have fallen significantly in recent years, there is still an attractive gap compared to Western European levels«

43%

OF THE TOTAL BALTIC TRANSACTION VOLUME ESTONIA 2015

market). Investment in the retail segment in 2015 accounted for 75% of the total investment volume. In Q4 2015 three big shopping centres in Riga – Alfa, Mols and Dole – were sold to the Blackstone Group LP as part of a large portfolio, with a total transaction volume of more than EUR 180 million.

The office segment was also active in Latvia, representing 25% of the total investment volume. In 2016, the property investment volume in Latvia is expected to reach at least the same level as last year.

The office market

The Riga office stock totals over 600,000 m^2. New deliveries of speculative modern offices have been insignificant during the last five years, with most completions being built-to-suit projects for government institutions. Many financially stable tenants are now making long-term decisions with a preference towards built-to-suit office reconstructions or acquisitions, and will thus vacate their leased premises. This may cause additional short-term vacancy in existing modern office buildings in 2016. The overall vacancy level in prime offices in Riga is currently below 1%, while vacancy in Class-B offices stood at 7.5% at the end of 2015. The average rent level for office premises in Riga CBD is EUR 180 per m^2. Newsec expects the market rent to rise to EUR 185 per m^2.

A number of premium offices are currently under construction, including Z-Towers and an office centre in the Skanstes Business district being developed by Hanner. Several other projects, including Business Garden Riga (Vastint), Ulmana Offices Park (Domuss, a part of NCH Capital), New Hanza City (LV bank), a Class-A office building in Skanstes (E.L.L) and others are expected to begin construction soon. In this case, supply could potentially increase sharply in 2017–2018.

The retail market

The main shopping destination in Latvia is Riga, which has 11 shopping centres. Their average gross lettable area is around 20,000 m^2. Only four projects consist of more than 30,000 m^2, the others being classed as small or medium local shopping centres.

The largest Lithuanian retail developer, the Akropolis Group, has announced the development of a new shopping complex in Riga, while Linstow Centre Management has announced the expansion of Alfa SC and Origo SC, and the department store Stockmann may be added to the shopping-centre stock in 2016. In Latvia, major brands are already located in the most successful shopping centres or switching to them. Since 2012

»Despite almost zero population growth in Tallin, private consumption has been growing constantly, supported by low energy prices and rising wages«

the market has seen new entrances including Next, Burberry, Massimo Dutti, H&M, Debenhams, Subway, Sports Direct, KFC and others.

Estonia: 2016 is expected to be no less active than the record year 2015

Despite a moderately growing population in the capital city Tallinn (an annual rise of 0.3%–1.25% for the last six years), the total population of Estonia has been decreasing at 0.2%–0.4% annually. Today Estonia has a population of 1.3 million. The decrease is caused by the fact that the migration balance for Estonia is negative. Moreover, due to a low birth rate the Estonian population is ageing. In 2015, only 26% of the population was under the age of 24 years. At the same time this age group makes up 33% of emigration.

The investment market

In 2015 the volume of Estonian property transactions was around EUR 486 million, which represents 43% of the total transaction volume in the Baltics. This is a record and almost double the volume of the 'boom' year of 2007. The market demonstrated growth more in the value of transactions than the number of deals closed. The weak stock market and high bond prices increased the attractiveness, as an investment option, of commercial property with reasonable profitability. On the other hand, high activity in the property investment segment is derived from comparatively high economic activity, low interest rates on deposits and cheap loans. High investment activity has also been supported by high liquidity on the market and a broad variety of high-quality development projects.

The retail and office sectors were among the property segments with the highest investment activity. The low cost of loan financing is expected to last for another one or two years. The China crisis occurring at the beginning of 2016 has once again demonstrated the fragility of any forecasts as well as the exposure to fluctuation of both stock and commodity investments. However, given geopolitical and economic stability, the year 2016 is expected to be no less active than 2015 in terms of commercial property investments.

The office market

By the end of 2015 quality office stock in Tallinn had increased to over 610,000 m², of which 43,500 m² was delivered in 2015. Whereas office development activity in Tallinn had previously started to move from the CBD to the outskirts, we are now witnessing major office development moving back to the CBD and the city centre.

In 2016 new office construction volume promises to exceed 2015, providing almost 52,000 m² of gross lettable area. Despite some turbulence at both micro-economic and geopolitical levels, the supply of new office premises is growing – partly because developers are now implementing plans made two or three years ago, but also because developers see that Estonian business companies are doing well enough to be able to move to new premises. At the same time, the ageing population suggests a more modest demand for offices in the long term.

Whereas business companies were actively looking for new office premises in summer 2015, creating a balance between supply and demand in the city centre, by the end of 2015 we were already seeing oversupply, which removes any expectation of rising rents in the near future. At the start of 2016, prime rents in Tallinn are running at up to EUR 210 per m² and vacancy at prime locations is about 3%. Considering the current financial situation of business companies, prime rents have reached their maximum level. The price gap between old and new office premises will widen and landlords of the older office buildings will have to compete by holding or even lowering their rents.

The retail market

Despite almost zero population growth in Tallinn, private consumption has been growing constantly, supported by low energy prices and rising wages. At the beginning of 2016 Tallinn's shopping centres have a total gross lettable area of over 390,000 m². New deliveries in 2015 were moderate (about 14,000 m²), although development of retail premises was more active in the outskirts of Tallinn. In 2016 and 2017 development activity in the Tallinn retail segment is expected to grow again. New deliveries will include T1 by Pro Capital (with a gross lettable area of 55,000 m²) and the large-scale retail and office project Porto Franco (Admiraliteedi Park) in the city centre. Both Citycon (one of the most active retail developers) and Capfield are planning to add several shopping centres to their portfolios.

At the start of 2016 prime rents in Tallinn shopping centres are running at up to EUR 600 per m² while the average rent is more than EUR 200 per m². In the next few years, no significant increases are expected because of the forecast increase in supply. The vacancy in well-performing shopping centres in Tallinn is below 1%.

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NORDIC PROPERTY FINANCING

In the second half of 2015 the trend of good access to financing from the senior banks has continued. For the most part, the banks are still interested in expanding their loan portfolios with both existing and new clients. They are competing among themselves as regards interest rates and covenants but are continuing to hold down the loan-to-value ratio. This is healthy because one of the mistakes that was made historically was that senior banks did lend at loan-to-value ratios that were way above what a senior loan should be. The Basel rules have probably also fulfilled their function here.

This continues to provide an opening for players who are able to fill the gap between the senior loan and pure equity. The junior loan market is dominated in practice by two players, which have different approaches to their own funding but which both have a very good understanding of the product. They also have internal processes that generally are significantly quicker than those of the senior lenders.

A market that has made strong progress in the past year is the segment that can be described either as junior or as lying between junior and equity. Here external capital is sourced through crowdfunding – a segment where we today, in comparison with the world around us, have probably seen only a fraction of the market's potential. In this segment one player stands out which provides financing with the instrument of preference shares that in practice are to be considered as equity. Otherwise there are a number of players with varying approaches and with varying track-records. But this is the usual pattern in a young segment, and the market generally tends to be self-cleaning.

Something else that is surprising is that the trend on the bond market (disregarding the listed companies) has continued to be very inactive on the property side. This can be explained in part by various events in the outside world, but probably – and hopefully – investors will return to viewing property bonds, even in the high-yield segment, as a lower yielding but safer investment in their bond portfolios.
We are currently in a generally liquid market, in terms of both assets and financing. But perhaps it is a good idea to reflect upon this. Precisely because it is relatively simple to get senior bank financing today, it is easy to 'take the money and run' to the next deal – without setting aside the time to review and think about the conditions that you have actually signed up to. It may be important to consider whether the interest rate you have received really reflects the risk of the transaction. Also whether amortisation is desirable or not, and if it is, how great it should be to provide a balanced risk for both the lender and the borrower. It is also important to review the lender's right to cancel the loan on the bank's side. And, last but not least, to consider what securities you have to provide and how and when they can be called. When the market is very good there is of course not a cloud in the sky, but the question we should ask ourselves is whether this will always be the fact, or if not, how we stand towards the lender on a purely commercial and contractual basis.

In most loan agreements there are clauses that allow the banks to pass on – to the borrower himself – an increased lending. It is therefore generally the borrower's responsibility to ensure that the lender's income is preserved. And of course it is a matter of negotiation how brutally this clause is formulated.

In our present interest rate environment an interesting question arises: who benefits when Stibor is below zero? You could debate whether it would be right for the borrower to benefit since in fact it involves no increased cost for the bank. However, the banks usually say that in these circumstances the interest rate margin is calculated above a floor where Stibor can be no less than zero. And the borrower then 'receives' the difference as an increased income.

A striking exception is a major Danish bank, which says that, down to a predetermined minimum, the borrower benefits instead in the form that the interest rate margin is reduced by the difference in sub-zero Stibor and possibly also by using the difference as amortisation on the loan. This may be something to discuss with other banks, since the amortisation both benefits the borrower, in practice, on the day that the loan is repaid, while at the same time the bank's exposure is reduced.

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»The trend of good access to financing from the senior banks has continued during 2015 and the banks are still interested in expanding their loan portfolios«

»The transaction market is predicted to continue to reach high volumes across all markets during 2016«

OUTLOOK FOR THE NORTHERN EUROPEAN PROPERTY MARKET

Newsec five-year forecast

Newsec continuously 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.

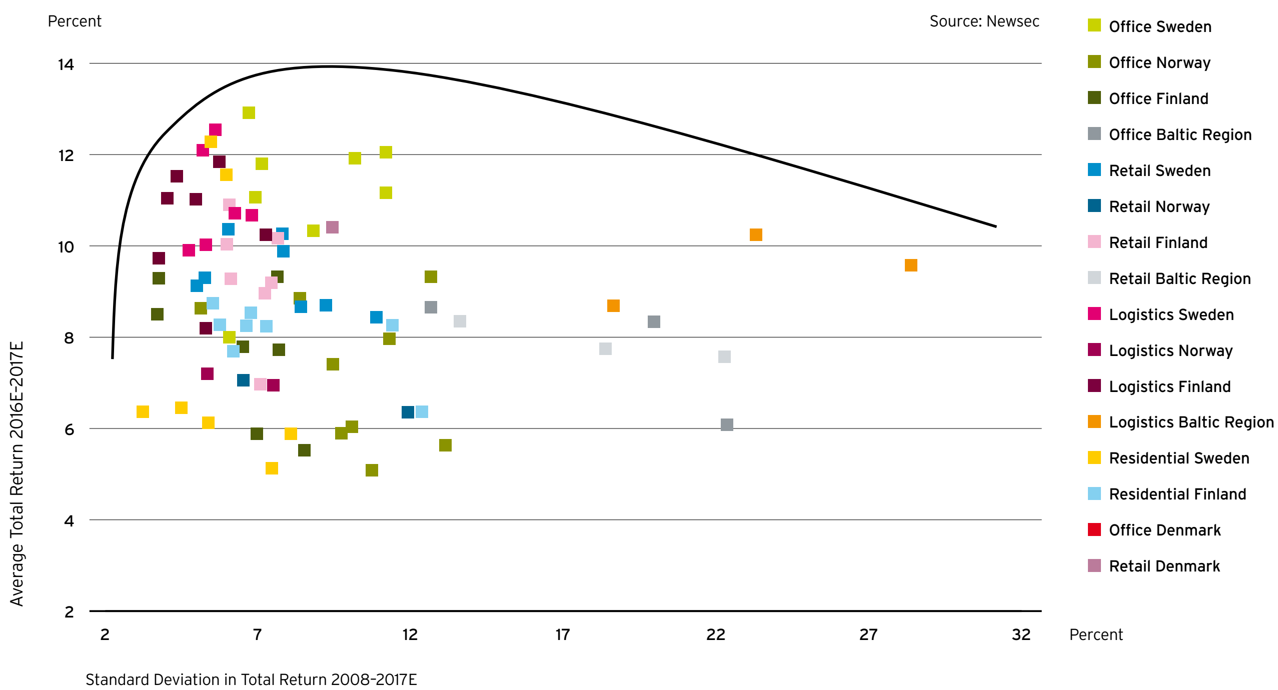
The basis for the forecast is our view about the macroeconomic development of the countries in the region and how that, in turn, will affect the commercial property market in each country. Yield, rental and vacancy trends for each market segment and area are estimated by our local experts and applied 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.

Still some yield compression to be seen

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.

2015 has been characterised by fairly large interest from international investors. 28% of the acquisitions made in Sweden in 2015 came from international capital. The SEK 9.5 billion purchase made by the US investor Blackstone contributed strongly to this high figure. However, domestic property companies and institutions are also still very active on the transaction market, and the competition for all properties is tough. The low interest rate environment is expected to continue through the year, and together with good access to financing and lack of highyielding alternatives will lead to continued high transaction volumes on the Swedish property market during 2016. The total transaction volume in Norway reached record levels in 2015, and the transaction volume is at relatively high levels in a historical perspective in the rest of Northern Europe as well.

Total Return/Market Risk – 2016E-2017E



NOK 120 BILLION

TRANSACTION VOLUME NORWAY 2015

The transaction market is predicted to continue to reach high volumes across all markets during 2016. 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 in 2015 reached NOK 120 billion, which broke the previous all-time high by a significant margin. Some of the major players on the Norwegian market have taken advantage of the strong market conditions to offload non-strategic properties in their portfolios. 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 continued during 2015. However, the Finnish property market is still lagging behind development in most other parts of Europe. Now international investors have started to show interest in Finland again as the overall market sentiment 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 we are seeing prime investment properties with high cash-flow security producing unprecedentedly high income returns relative to, for example, 10-year government bonds. Today's investors seem to consider a long-term lease with a strong covenant tenant to be a weightier investment consideration than property location. The attractive risk-adjusted returns on property relative to other asset classes have served to increase transaction volumes and reduce yield requirements on prime property in particular.

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 the 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.

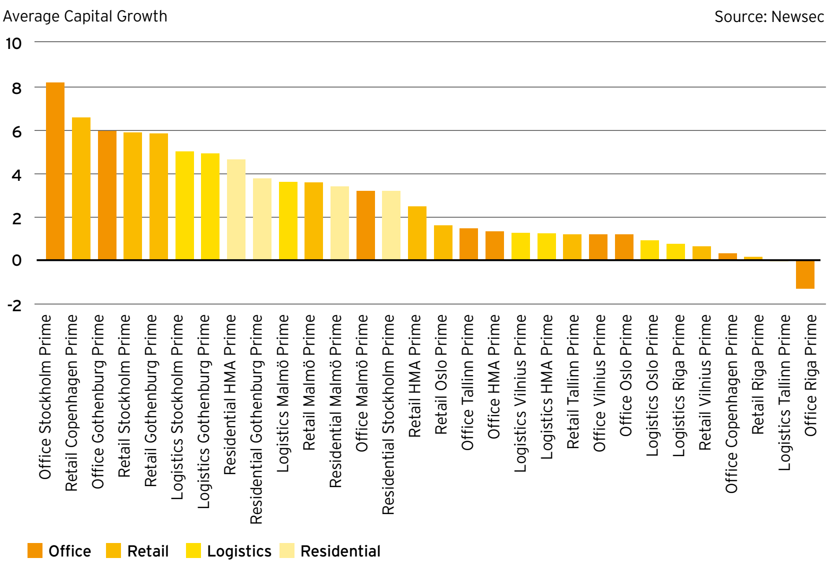
Office in Sweden best expected total return in 2016-2017

Office properties in Sweden are expected to show the best total return during the period 2016-2017. However, this is 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 large increases in rents and continuously 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 forecast 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 to find attractive risk-adjusted returns within the segment, but investors buying

Average Capital Growth 2016E-2017E



»Office properties in central Stockholm are expected to show the best capital growth during the period 2016-2017«

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

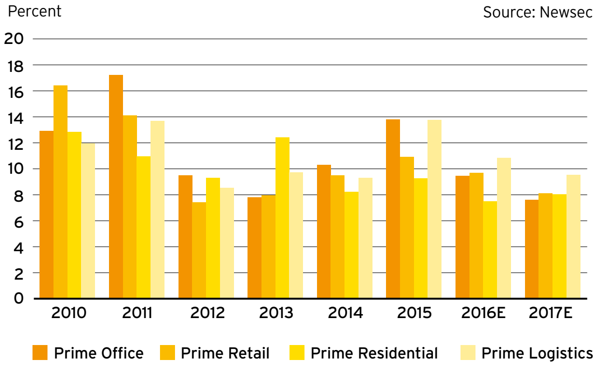
Office properties in central Stockholm are expected to show the best capital growth during the period 2016-2017. The average yearly capital growth for the segment is predicted to be around 8% during the forecast period. The high expected capital growth is primarily driven by expectations of a high rental growth in combination with slightly decreasing yields.

The segments 'Retail Copenhagen Prime', 'Office Gothenburg Prime', 'Retail Stockholm Prime' and 'Retail Gothenburg Prime' are all expected to show a yearly capital growth of around 6% during the period.

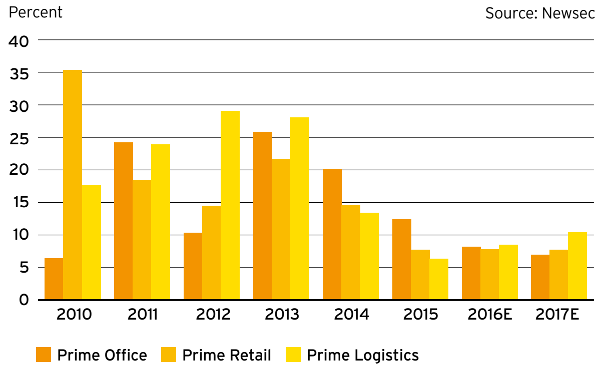
The prediction is most negative for office properties in Riga, where the average yearly capital growth is predicted to be -1.3%. This is driven by large increases in vacancies.

Investors chasing maximum capital return during the forecast period should go for office properties in central Stockholm.

Total Return | Nordic Region



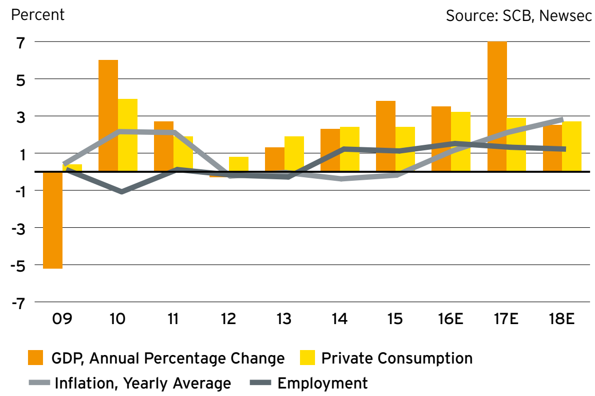
Total Return | Baltic Region



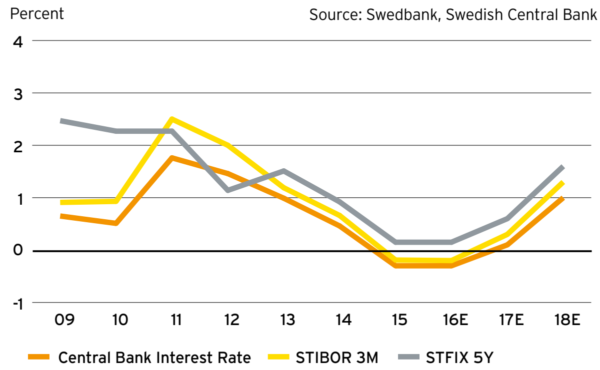
MACROECONOMIC DATA

Sweden

Economic Indicators

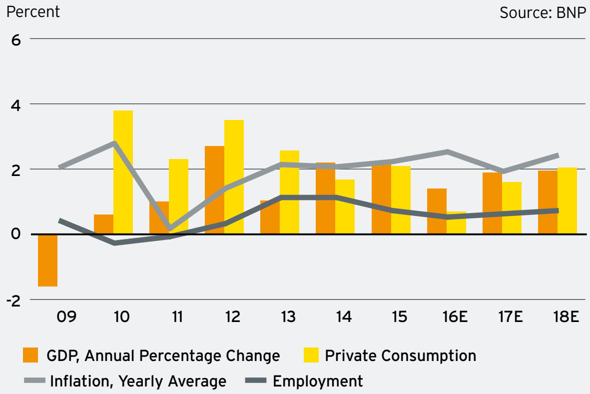


Interest Rates

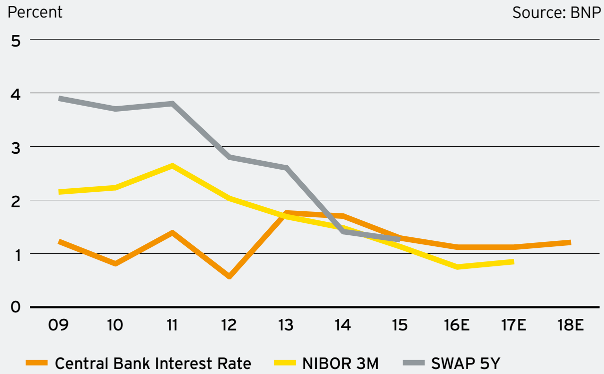


Norway

Economic Indicators

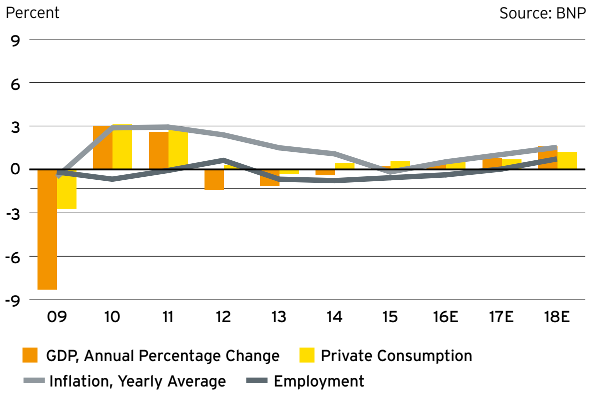


Interest Rates

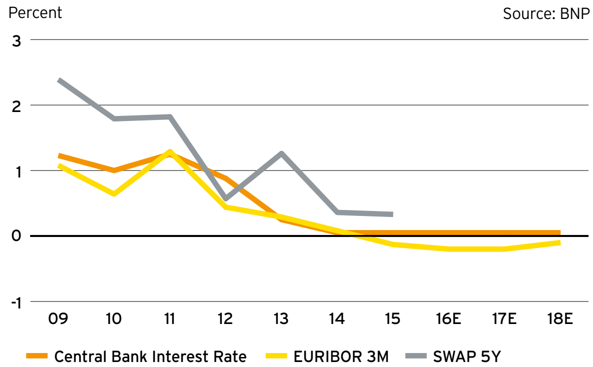


Finland

Economic Indicators

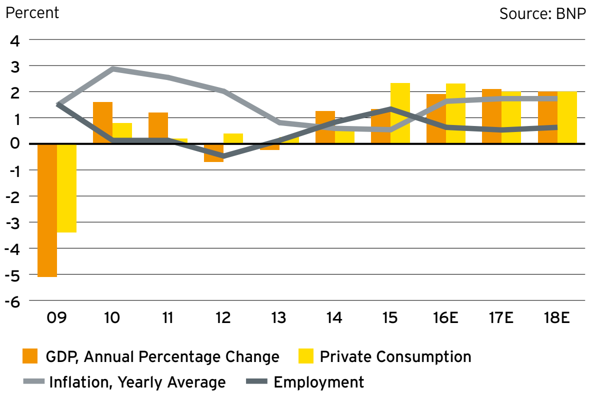


Interest Rates

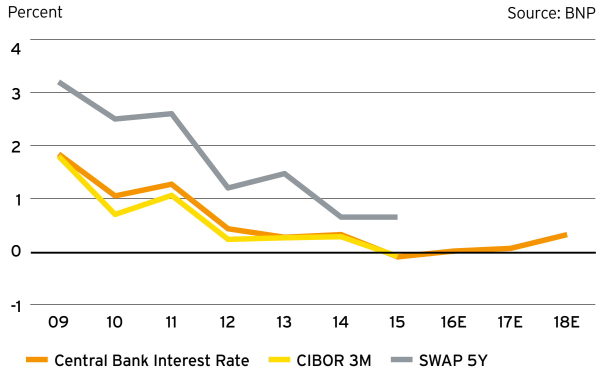


Denmark

Economic Indicators

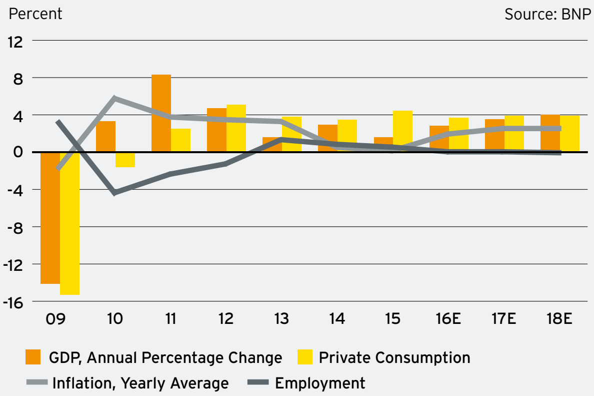


Interest Rates

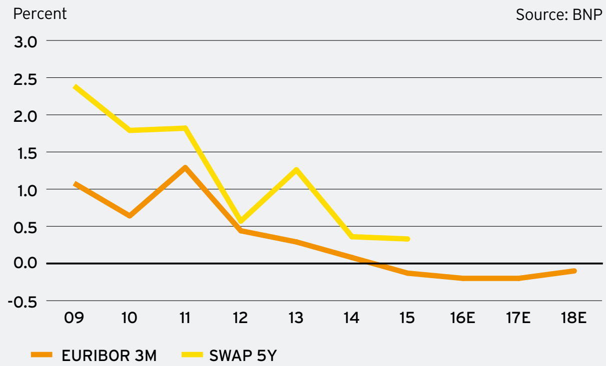


Estonia

Economic Indicators

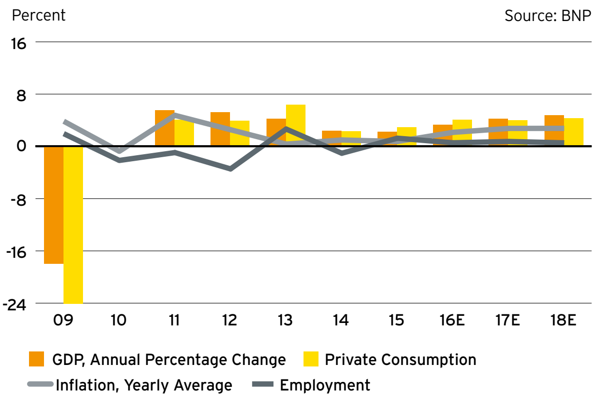


Interest Rates

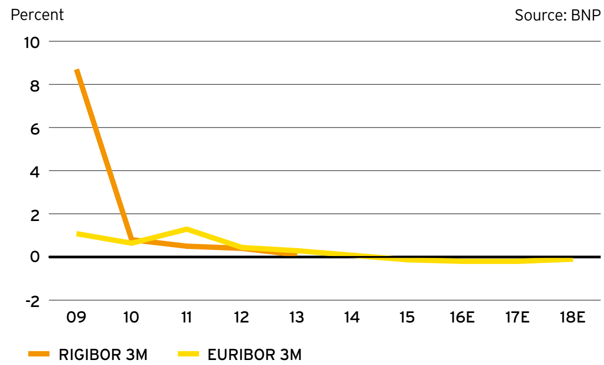


Latvia

Economic Indicators



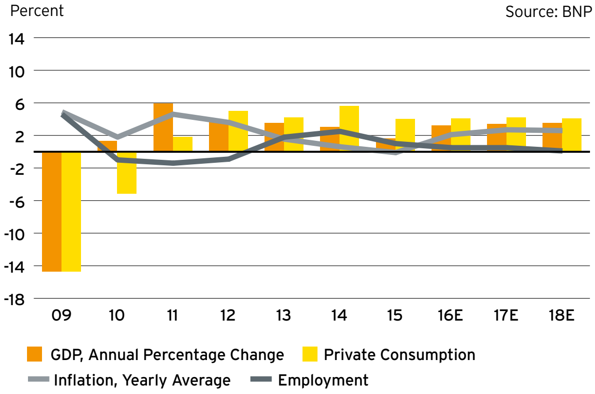
Interest Rates



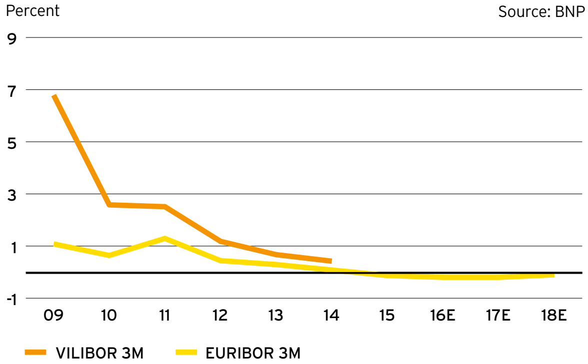
MACROECONOMIC DATA

Lithuania

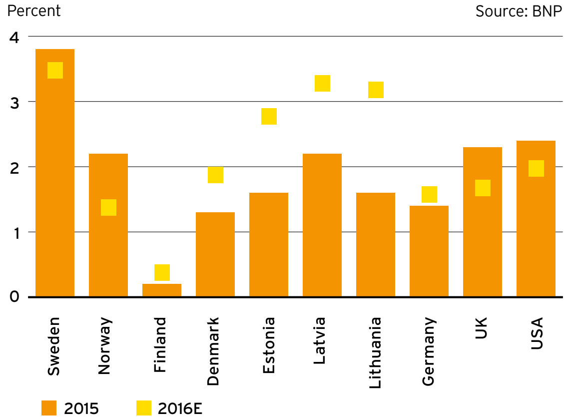
Economic Indicators



Interest Rates



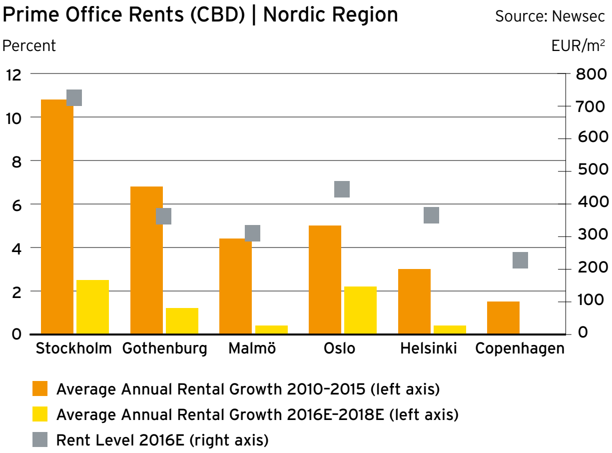
GDP Growth 2015-2016E



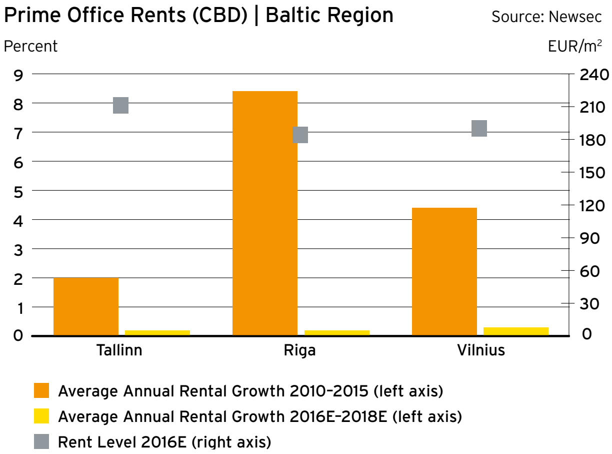
PROPERTY DATA

Office rents

Prime Office Rents (CBD) | Nordic Region

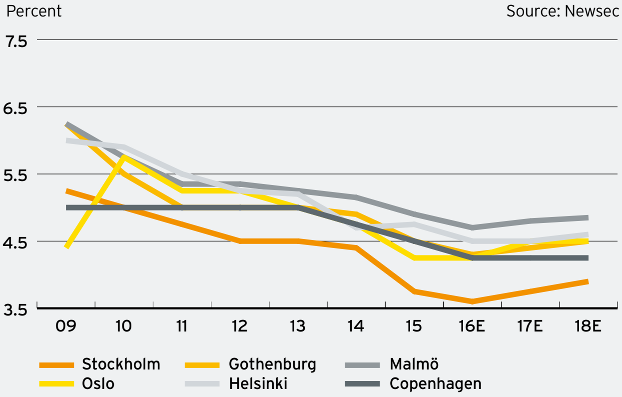


Prime Office Rents (CBD) | Baltic Region

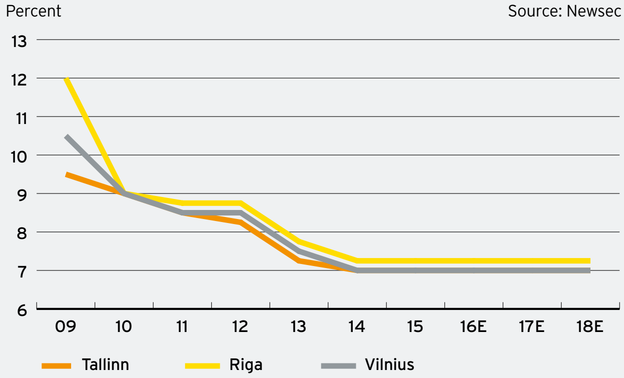


Office yields

Prime Office Yields | Nordic Region

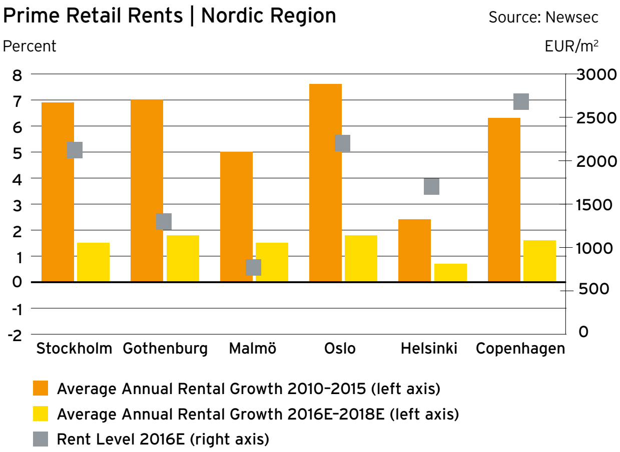


Prime Office Yields | Baltic Region

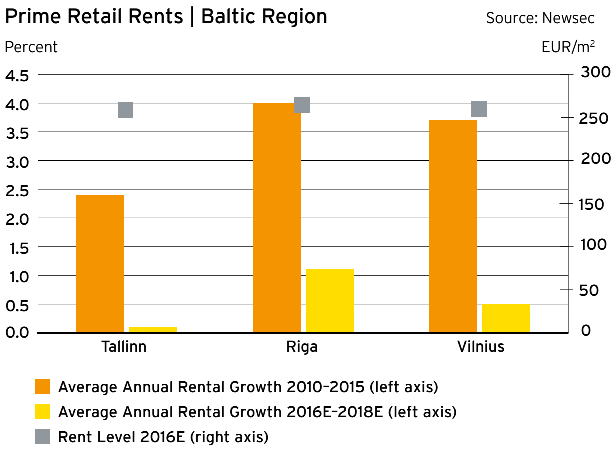


Retail rents

Prime Retail Rents | Nordic Region



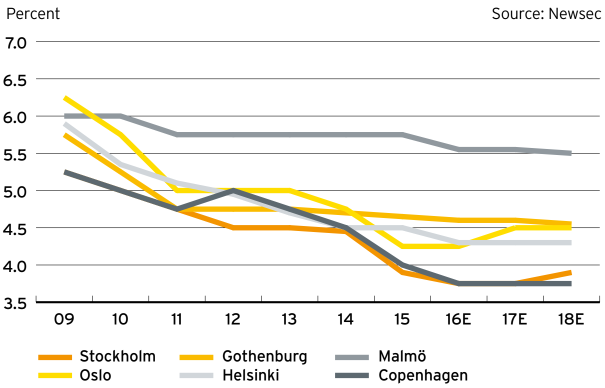
Prime Retail Rents | Baltic Region



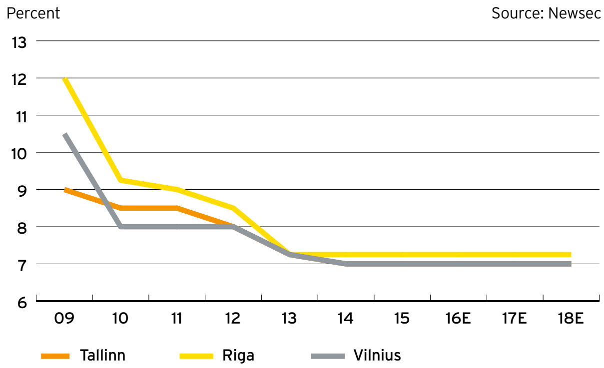
PROPERTY DATA

Retail yields

Prime Retail Yields | Nordic Region

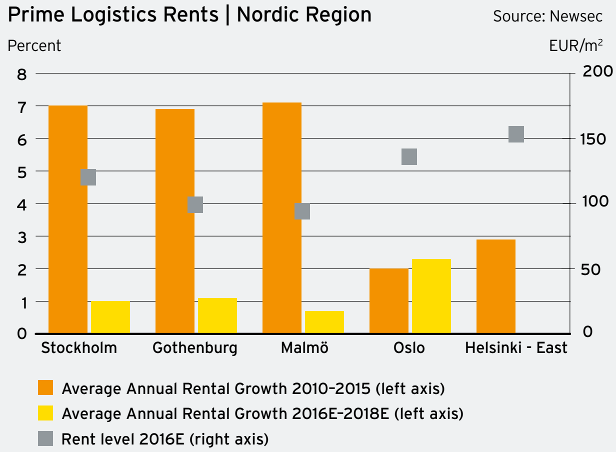


Prime Retail Yields | Baltic Region

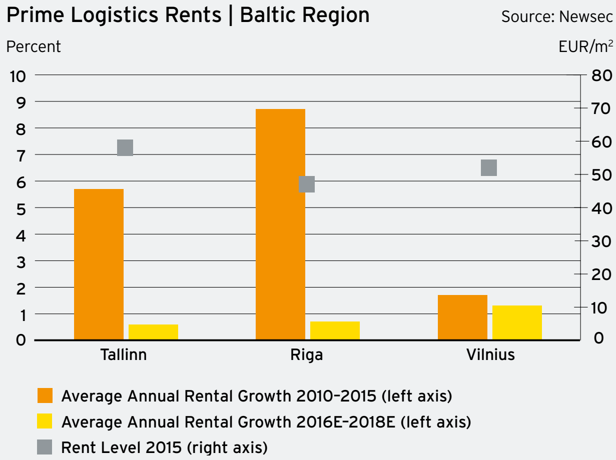


Logistics rents

Prime Logistics Rents | Nordic Region

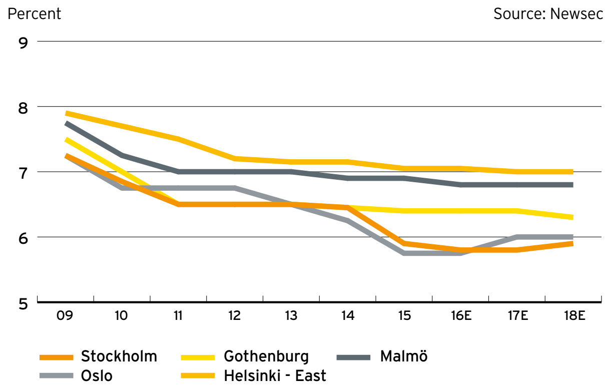


Prime Logistics Rents | Baltic Region

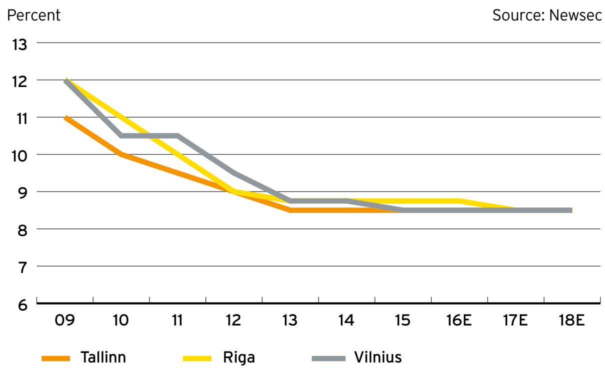


Logistics yields

Prime Logistics Yields | Nordic Region

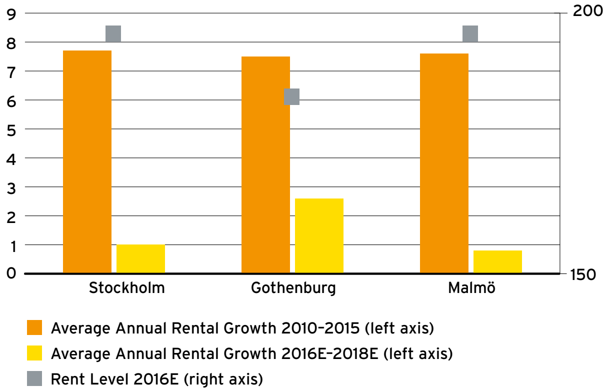


Prime Logistics Yields | Baltic Region

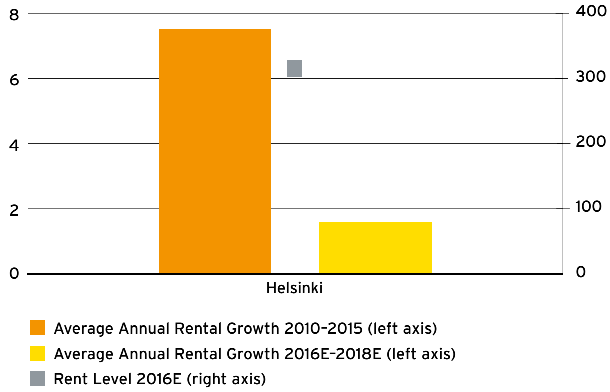


Residential rents

Residental Rents | Sweden

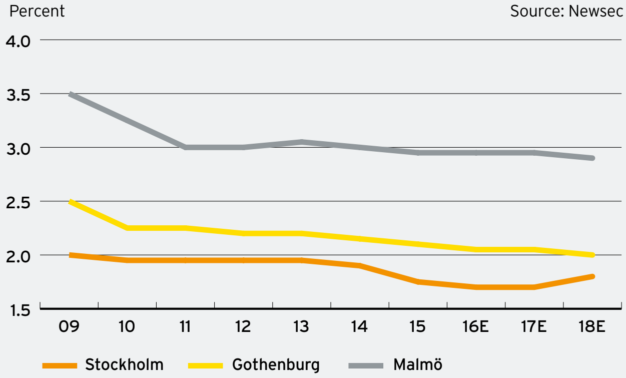


Prime Residental Rents | Finland

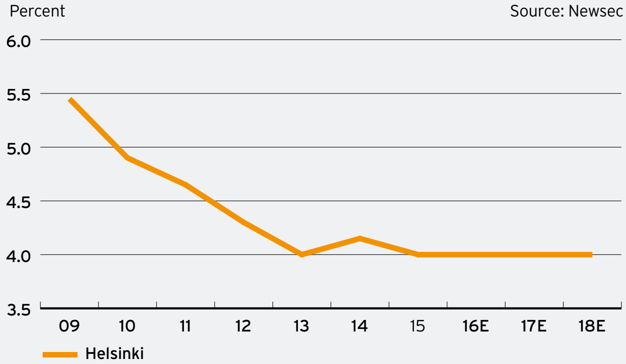


Residential yields

Prime Residential Yields | Sweden

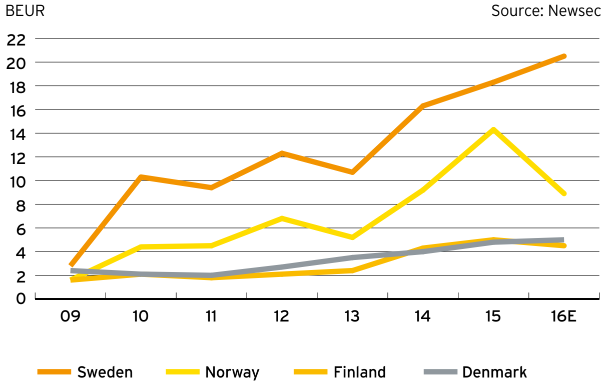


Prime Residential Yields | Finland

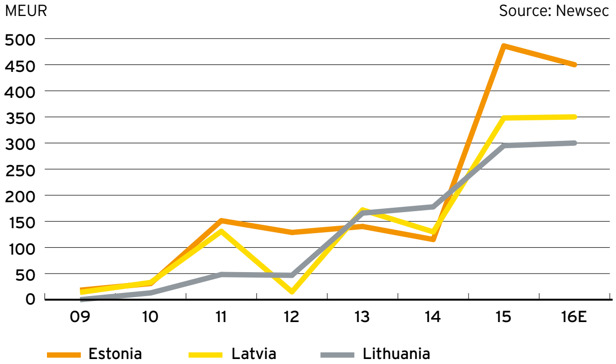


Annual transaction volumes

Transaction Volumes – Annual | Nordic Region



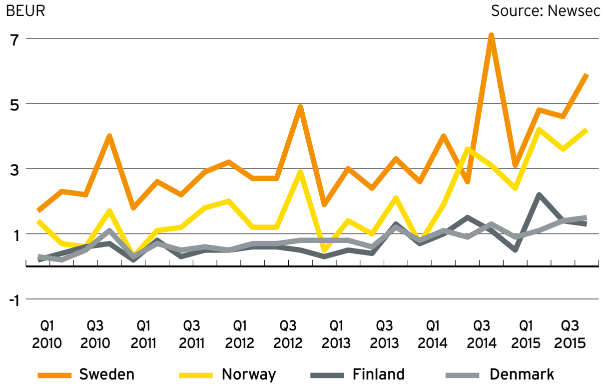
Transaction Volumes – Annual | Baltic Region



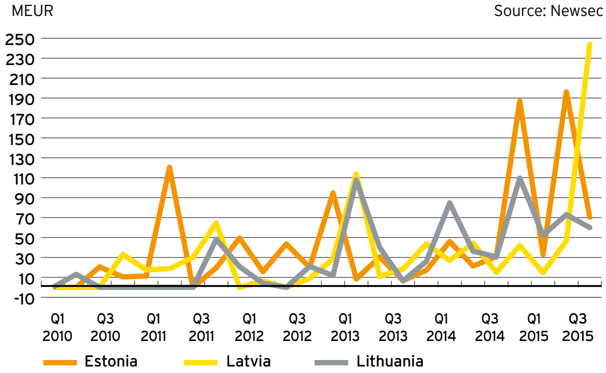
PROPERTY DATA

Quarterly transaction volumes

Transaction Volumes – Quarterly | Nordic Region

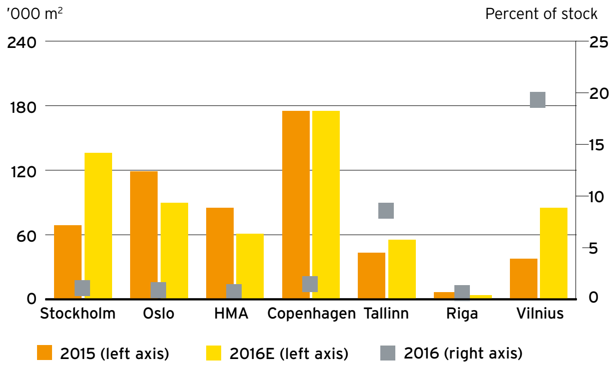


Transaction Volumes – Quarterly | Baltic Region



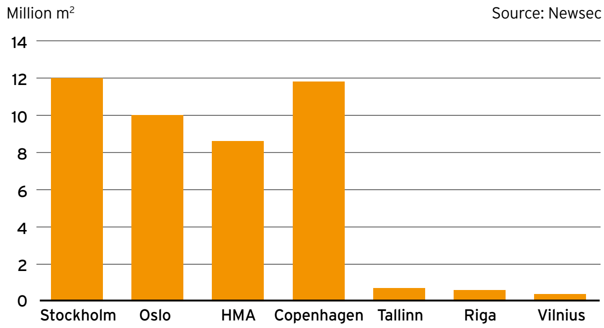
Office new construction

Office New Construction (Capital Office Market)



Office stock

Office Stock Q4 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 January 2016.

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

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

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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.

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