

NEWSEC

# NEWSEC PROPERTY OUTLOOK

AUTUMN 2016



# **NEWSEC**

## **PROPERTY OUTLOOK**

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# EXECUTIVE SUMMARY

After two months of broadly negative returns at the start of 2016, global stock markets have slowly gained speed in the spring and summer. Britain's vote for Brexit and Prime Minister David Cameron's subsequent resignation have been the key drivers of both European and global stock markets during the last couple of months.

The uncertainty after the Brexit vote has spread to the British commercial property market, where investors seem unsure about what financial role London will be able to maintain in the future. There is also concern about what long-term impact the Brexit vote will have on British property prices. We believe that the commercial property market in Northern Europe will continue to be an interesting market to participate in despite market volatilities imposed by Brexit. Interest rates remain low and there is still a lot of liquidity in the system.

## Urbanisation and demand for housing are transforming the property market in our major cities

In the last issue of Newsec Property Outlook we discussed the impact of the changing demography on the Swedish property market. This issue will develop the argument further with an analysis of how a powerful population growth and

a shortage of housing are changing our major cities.

The global urbanisation trend is apparent in the Swedish property market, and in combination with a great shortage of housing, it is shaping the residential market in the cities. Investors on the property market have started to convert many properties in the inner cities that are suitable for residential use. It is likely that all appropriate office buildings in these areas will be converted into housing at one time or another if the market conditions remain the same.

The City of Stockholm has set the target of building 140,000 housing units up to 2030, of which 37,000 are planned to be built in the inner city. This development is beginning to change the whole city landscape and is placing new demands on the types of service functions required in the inner cities. Services suited for

residential areas – for example, schools and neighbourhood services – are preferred to office-related services.

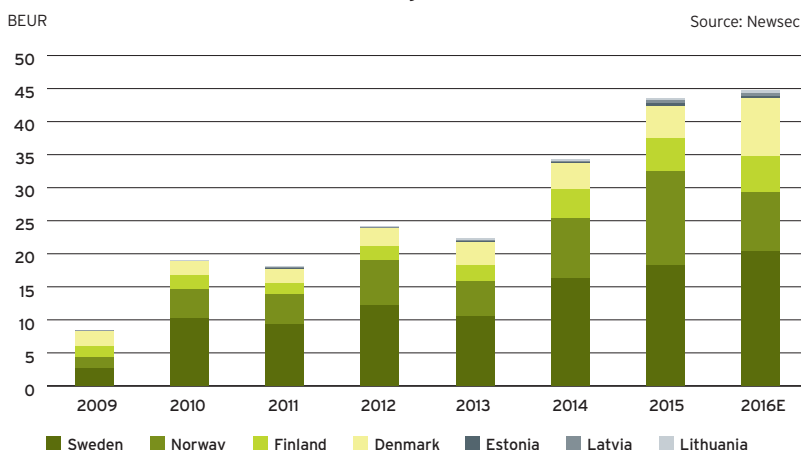
Stockholm is growing and is in need of new residential districts and an expanded infrastructure. Hammarby Sjöstad, Söderstaden and Liljeholmen are examples of residential conversion projects that will reshape Stockholm and extend the inner city to the south, or have already done so. The highly active residential market is being driven by a growing population, low interest rates and rising disposable incomes. Record prices are constantly being reported and, keeping pace with this trend, residential building rights have also increased in value.

In Stockholm the prices of residential building rights have shown a very strong growth in the last two years. Newsec's analysis of the prices of building rights illustrates clearly how the prices of building rights in the inner city and the inner suburbs have increased by between 20%–40% while the prices of building rights in suburbs in north-western and southern Stockholm have risen by as much as 50–100% during the period. The current property market makes it preferable to prioritise residential building projects over other types of new construction. Only services required by the residents are given equal priority.

## 2016 will show new record levels on the investment market

As a direct consequence of Britain's vote for Brexit, the low-interest-rate environment is expected to continue throughout 2016 and 2017. Together with volatile stock markets, lack of high-yielding alternatives and relatively good access to financing, this will lead to continued high transaction volumes on the property markets in Northern Europe through 2016 and 2017.

Transaction Volume: Nordic and Baltic Region







»The global urbanisation trend is apparent in the Swedish property market and it is shaping the residential market in the cities«



# **SEK 180–190 BILLION** ESTIMATED TRANSACTION VOLUME SWEDEN 2016



## »Norway's property market has slowed down after the record-breaking year of 2015«

In Sweden the first half of 2016 has been characterised by several large transactions. The total transaction volume exceeds those for the same period in the record years of 2014 and 2015. Considering transactions of SEK 40 million or more, deals with a total volume over SEK 94 billion were carried out in the first six months of 2016. The comparable transaction volume for the first half of 2015 was SEK 64 billion, which shows that the start of 2016 has been very strong. Newsec predicts the total transaction volume for 2016 to reach new record levels at SEK 180–190 billion. One factor contributing to the good financing climate and continued strength of property is the low interest rate, which the Swedish central bank left unchanged at –0.5% at its last meeting in September.

Investors' interest in Sweden's major regional cities continues. During the first half of 2016 almost 35% of the total

transaction volume was carried out in cities other than Stockholm, Gothenburg and Malmö. The share taken by foreign investors during the first half of 2016 has fallen significantly. For the first two quarters the share was 12% compared to last year's 22%. This can be explained to a high degree by large domestic transactions at the beginning of 2016. The transaction market is expected to remain strong during 2016 and will be characterised by major structural and portfolio transactions.

Norway's property market has slowed down after the record-breaking year of 2015, when the final transaction volume totalled NOK 120 billion. In the first half of 2016 the total transaction volume in Norway was approximately NOK 30 billion. During the second quarter the market gained good momentum into the summer, with increasing liquidity and the banks clearly open for business. However

there is a shortage of good projects, and those handled in the first half-year have consequently aroused a lot of interest.

The Finnish property market has continued to show a high activity during 2016 with a total transaction volume of EUR 4.2 billion in the first half-year. This can be compared to the total transaction volume in the first half of 2015 which amounted to EUR 2.7 billion. The lack of good investment properties in Europe's main market areas, and the low yield-levels prevailing there, are continuing to drive investors to seek higher yields and spread their risks in Finland.

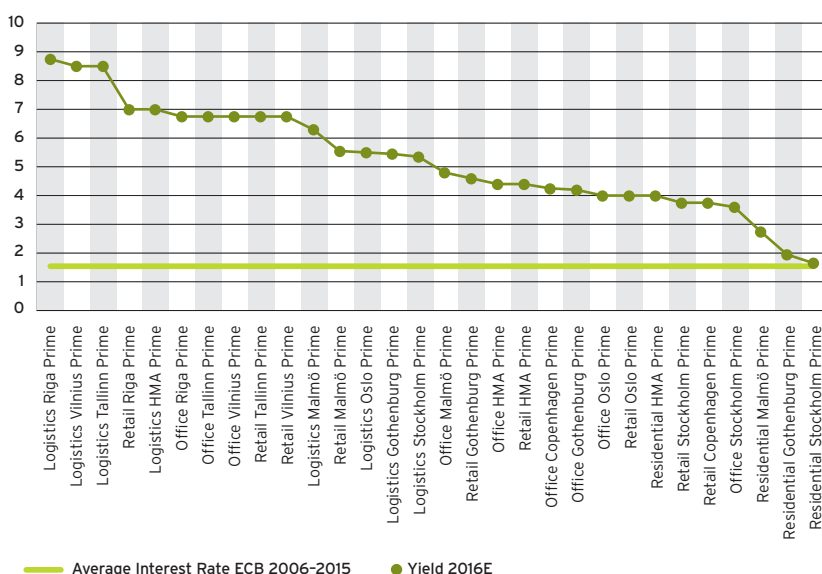
In 2015 the Danish property market returned to the same high level as in the years before the financial crisis. This activity seems likely to continue in 2016 and 2017. The demand for investment properties and development projects has resulted in rising prices for centrally located properties. At first the increases were mainly confined to Copenhagen and Aarhus, but they now seem to be spreading to other major cities in Denmark and creating greater interest in investments there.

After a record-breaking last year for the Baltics, the beginning of 2016 started actively in terms of transaction volumes. During the first half of 2016 the combined transaction volume for the three countries reached EUR 300 million. This can be compared with the same period in 2015 when the transaction volume exceeded EUR 400 million. The increased interest from Western European investors compared to solely Nordic and Russian capital is expected to continue throughout 2016. However, local Baltic, Nordic and Eastern European investors remain key players in the region.

### Market Yield Northern Europe

Percent

Source: Newsec



# GLOBAL ECONOMIC OUTLOOK

## Global

Weak economic growth, low interest rates and populist movements are three key themes that dominate the outlook for the world economy. The global economy is forecast to grow at about 3%–4% a year in the next few years, while the US and the euro area will continue to grow at a more moderate pace. In the US, the business cycle is maturing, and Swedbank expects growth at around potential, while the euro area is still recovering from the financial crisis. In the major emerging markets growth is diverging, with a continued slow-down in China, somewhat better prospects in India, and a weak re-emergence of growth in Russia and Brazil. Overall, growth is just about high enough to see a very gradual normalisation of monetary policy in Western countries. However, it is not strong enough to stave off the growing emergence of populism threatening the long-term prospects of economic growth. Global growth is forecast to reach 3.2% in 2016 and 3.7% in 2017.

## Euro area – slow growth continues

Advanced economies are continuing to suffer from only a weak recovery, with

recurring negative events. The UK decision to leave the EU was a negative surprise that will weigh on growth there for a significant time, but the immediate effects on markets have so far proved transitory. The weak recovery since the financial crisis, together with slow productivity growth, is increasing political strains and putting the focus on the political outlook. All major economies will still be in need of economic stimulus over the forecast period (to the end of 2018).

GDP in the euro area grew by 1.1% in the second quarter of 2016. There is little scope for growth to accelerate substantially. The forecast rise in GDP for the EMU countries is 1.5% in 2016 and 1.6% in 2017. Growth in manufacturing production has softened in recent months and new orders have been weak, suggesting there is little more for European manufacturing to gain from a weakening of the euro. Consumer confidence has fallen through the year. Even if it remains above average in all the largest euro-area economies, this fall suggests slower growth in private consumption ahead, and retail sales were indeed close to unchanged in the second quarter.

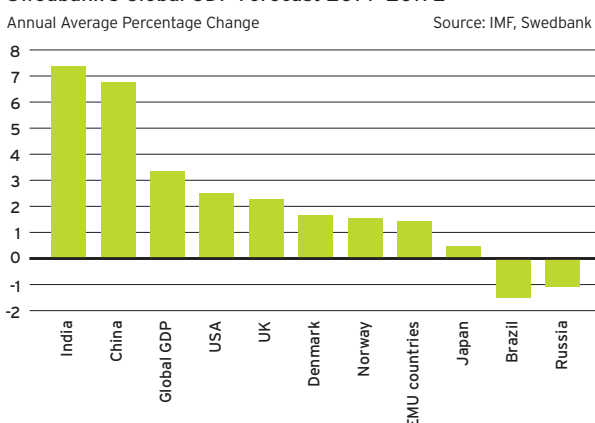
Despite slow growth, unemployment is falling in almost all countries in the euro area. Importantly, this is due to expanding employment, which is boosting households' incomes even if wage growth remains low. The level of unemployment is still high, however, and there are no signs of wage or price pressure anywhere. Consequently, it remains legitimate for the European Central Bank to pursue an exceptionally expansionary monetary policy for quite some time yet.

## Nordics

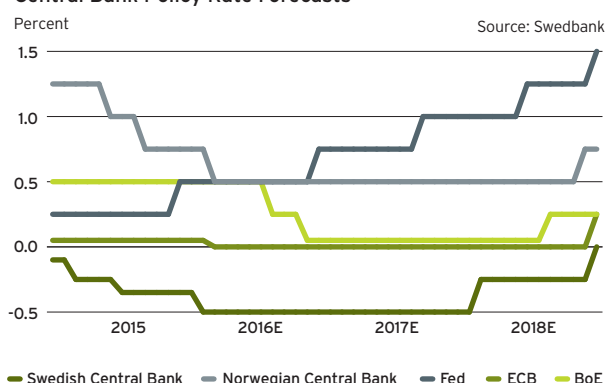
### Sweden – good prospects for achieving high growth

Last year was exceptional, as the Riksbank's interest rate cuts coincided with an unexpected fiscal-policy stimulus following the wave of immigration. Public-sector consumption increased in parallel with the stimulus to household consumption through the low interest rates. Simultaneously, the Swedish krona weakened, which contributed to higher export growth. The high GDP growth rate of 4.2% at the end of 2015 spilled over into 2016. The driving forces are a strong labour market that helps boost consumption, an expensive construction sector,

Swedbank's Global GDP Forecast 2014–2017E



Central Bank Policy Rate Forecasts





## »Weak economic growth and low interest rates are key themes that dominate the outlook for the world economy«



and a continued high level of public consumption. This favours primarily the service sectors within the country, while industrial production and exports are seeing only modest growth rates. Strong domestic demand means that the labour market continues to experience strong growth, and the pressure in the construction sector remains high.

Sweden has good prospects for achieving high growth in the long term. Government finances are sound, the labour market is strong, and Swedish companies are competitive. However, global demand will continue to remain subdued in the next few years at the same time as the Swedish krona will be strengthening. The forecast GDP is 3.3% for 2016 and 2.3% for 2017.

The labour market is continuing to strengthen, with good employment growth and falling unemployment – a development that is largely expected to continue during the next few years. The large numbers of asylum seekers admitted in recent years are now obtaining residence permits and being transferred to the labour market programs, which is increasing the workforce by about 1% a year. The polarisation of the labour market between those born in Sweden and those of foreign origin has increased, and the problems of matching the two groups are increasing. The Swedish government and the labour-market parties are facing a difficult problem. To maintain a positive increase in employment, integration has to be improved. If integration is not im-

proved and the polarisation continues to increase, new immigrants with a low level of education will require public support, and there is a risk that social division will increase.

The contrast between a strong domestic economy and weak global growth is creating a major challenge for the Riksbank. Domestic demand leads to increased price pressure on domestic goods and services, while imported inflation remains weak. Swedbank's forecast is that the CPI will remain below the Riksbank's target of 2% during the forecast period. Swedbank believes that the Riksbank will be forced to adapt to internationally low rates of interest, dominated not least by the ECB. As a consequence Swedbank's main scenario

## »Growth in Finland is expected to improve gradually in 2016–2018«

is that the Riksbank will maintain the repo rate at –0.50% throughout 2017. While there is certainly a willingness to try to get away from negative interest rates as soon as the opportunity arises, Swedbank believe that this will be difficult, given the soft approach that the leading central banks around the world are adopting. Although Swedish inflation is now moving upwards, this rise is fragile and volatile and not sufficient to get the Riksbank to take action during the second half of 2017, which is its own current forecast. It is estimated that there will be scope in 2018 for a few cautious repo rate increases, and the repo rate is expected to stand at 0% at the end of 2018.

In recent years household spending has accounted for a significant part of Swedish growth. In addition to the increase in consumption, the housing shortage, in combination with a strong rise in jobs in urban areas, has boosted investment in housing. In both 2014 and 2015 private consumption and housing investment, taken together, contributed around two-thirds of the total increase in growth. Swedbank expects continued positive growth in consumption in the coming years, although at a declining rate. Nonetheless, the new amortisation requirement and uncertainty in the housing market appear to be having a dampening effect. In addition, households' view of their own financial position seems to have peaked at the same time as the risk of unemployment is still considered to be relatively high. Overall, households' situations will continue to be strong in the next two years, with good increases in disposable income and relatively low inflation. However, given the caution seen in households, Swedbank expects that savings will remain at very high levels. Households' significance for growth will, in any case, remain high and thereby constitute a risk for the economy.

### Norway – the worst is past

Growth in the mainland economy remains low, but key indicators, as well as most real data, suggest that the worst is probably behind us. The contraction in oil-related industries is not over, but it is easing. Quite surprisingly, non-oil-related manufacturing still seems unaffected by the weak krone, but net exports have nevertheless contributed significantly to mainland GDP growth over the past year. Non-oil investments are slowly increasing, total private consumption is rising, and fiscal policy remains expansionary. Swedbank expects mainland GDP growth of 0.7% for all of 2016, a pickup to 1.4% next year, and the same growth rate in 2018 as the drag from declining oil investments subsides.

After rising steadily through 2015, unemployment has stabilised in recent months. Open unemployment is actually falling in most regions. The Labour Force Survey confirms that unemployment is stabilising but is also reporting that employment rates are declining. Overall, recent labour market developments have been significantly better than Norges Bank and most others expected only a short while ago.

As widely expected, Norges Bank kept its main interest rate unchanged in June, while sending strong signals for another cut in September, to 0.25%. Since then, data have been clearly better than expected. Overall consumption is keeping up fairly well on account of strong growth in services consumption. House prices and household debt are accelerating, and an already high ratio of household debt to income is being pushed up further. At the same time, the savings ratio is close to record high levels, reducing the risk of a setback in household demand. Consequently, we expect Norges Bank to postpone the 'planned' September cut, and we see unchanged rates through

2017 as the most likely outcome.

### Finland – domestic demand driving the gradual recovery

In 2016–2018, growth in Finland is expected to improve gradually. However, the pace of the recovery will be sluggish. In 2016, domestic demand will contribute to the growth, whereas export performance will be feeble. The construction and services sectors are the main drivers of growth on the production side of the economy, while output volumes in manufacturing are recovering very slowly. In 2017–2018, export growth is expected to improve, whereas private consumption will weaken.

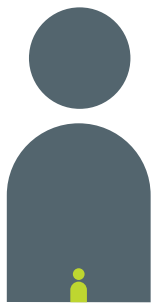
Finland has made progress in narrowing the gap between wage and productivity growth; this has contributed to an improvement in its cost competitiveness. However, its share on the export markets is declining. The structure of both exports and export markets has changed for Finland; meanwhile, finding new conditions that would support growth has proved to be complicated and unduly slow.

### Denmark – gradually reaching full capacity

The relatively weak growth in recent years gives a misleading picture of the Danish economy. Overall growth was 1.3% in 2014 and 1.0% in 2015, but was dragged down by a structural decline in the extraction industries. Since 2013, other sectors such as industry, services and construction have contributed more positively to growth. Since these sectors are more labour-intensive, the labour market has recovered strongly. Employment increased by 1.5% in 2015 and is continuing to grow in 2016. Unemployment is currently at 4.2%.

Growth is expected to pick up due to solid domestic demand. In particular, house-





1.5%

## INCREASE IN EMPLOYMENT IN DENMARK 2015

hold spending will remain strong. This implies that the slack in the Danish economy is gradually dissipating, creating challenges for economic policy. Monetary policy remains expansive. Following the outcome of the Brexit referendum, safe-haven inflows have increased, forcing the central bank to intervene in the foreign-exchange market. With the exchange rate pegged to the euro, the main burden of managing the economy falls on fiscal policy. The government's stated intention is to reduce the budget deficit over the coming years. The main risk to the outlook is external, but households remain vulnerable to shifts in financing conditions and house-price developments. Household indebtedness is at record levels, and the share of adjustable-rate mortgages is large.

### Baltics – growth should pick up next year

Growth in the Baltic countries will be lower this year than previously expected, mostly due to weaker investment. However, growth is expected to pick up next year on the back of recovering exports and investments. The labour market remains tight, resulting in strong growth of both wages and household consumption. Nevertheless, wage growth is expected to

decelerate going forward, while employment growth will be weak or non-existent as a result of ageing populations. Labour costs have been growing faster than productivity and may continue to undermine competitiveness. Inflation will finally pick up due to higher prices of commodities and services.

### Estonia – more mature and more slow

The forecast GDP growth rate for 2016 has been revised to 1.5% (from 2.3%), primarily due to weaker-than-expected investments; meanwhile, exports are growing and consumption growth has been robust. Foreign demand is expected to improve gradually in 2017–2018. This will contribute more to export growth and to the recovery of investments and, in turn, will accelerate economic growth to 2.5% in 2017 and 2.7% in 2018. The labour market remains tight and nominal wages will continue to grow fast. However, after more than three years of deflation, consumer prices are expected to increase in 2017–2018, and this will slow private consumption.

### Latvia – the breeze is yet to fill the sails

Growth is satisfactory but not good. The economy grew by 2.1% in the first half of

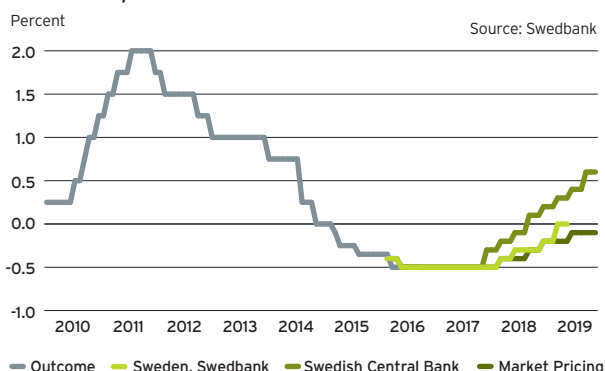
2016, slowed by a slump in investments. Construction is in recession. The labour market is tightening. However, consumption growth remains robust. Exports have rebounded strongly after the weak turn of the year, but rising labour costs are eating into competitiveness. The credit cycle for corporates is about to turn positive; but not yet for households. Unless supply-side reforms are speeded up, growth of 3% is about the potential: anything above that pushed only by credit expansion.

### Lithuania – lower growth in the second quarter of 2016

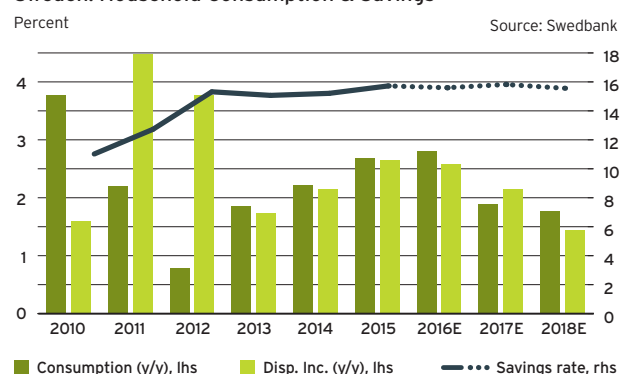
Economic growth is fair, but could have been much better. Growth slowed to 1.8% in the second quarter of this year, down from 2.4% in the first. There was a huge negative impact from shrinking inventories, and investment growth took a pause. On the other hand household consumption and even exports have been growing faster than expected. Ahead, we see the manifestation of a midlife crisis – where growth above 3% becomes increasingly unlikely.

Source: Swedbank Economic Outlook, August 2016

Sweden: Repo Rate Path



Sweden: Household Consumption & Savings



# SWEDEN – INCREASED DEMAND FOR HOUSING IS TRANSFORMING THE PROPERTY MARKET IN OUR MAJOR CITIES

In the last issue of Newsec Property Outlook we discussed how a changed demography is affecting the Swedish property market and creating great challenges for it. In this issue we develop the argument further with an analysis of how a powerful population-growth is changing our major cities.

The global trend towards urbanisation is obvious in the Swedish property market, and in combination with the great shortage of housing is shaping the residential market in the cities. All properties in the inner cities that are suitable for residential use are being converted to residences – an equation that suits the great majority of properties following a long-term trend of steeply rising house-prices.

## All types of property that are suitable for residential use are being converted

The City of Stockholm has set itself the target of building 140,000 housing units up to 2030, of which 37,000 are planned to be built in the inner city. As a result, the whole urban landscape is being changed and is placing new demands on the types

of service functions that are needed in the inner city – services that are more suited to the needs of residents than to office-workers. For example, more primary and secondary schools and expanded neighbourhood services are needed.

The shortage of housing and people's desire to live more centrally – and therefore closer together – means that all types of property that are suitable for residential use are being converted. More or less all suitable office buildings in the inner cities, apart from parts of the CBD, have great potential to be converted into housing sooner or later. This trend, which has grown steadily stronger in recent years, is interesting in that as recently as the 1960s, 1970s and 1980s we saw the very opposite pattern of movement. In those years the major cities were being depopulated; whole residential quarters were being torn down and new offices built; and central residential blocks were being converted to offices. Today we are seeing examples of buildings that are being converted back to their original uses – for example, in 2014 AMF acquired the property Jakob Mindre 5 on Kungs-

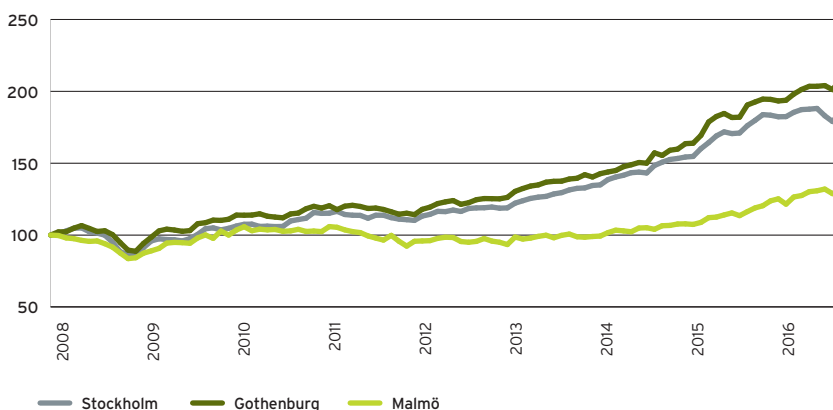
trädgården in Stockholm which is over a hundred years old. The property was originally built for residential use but was converted to office premises as long ago as the 1920s. Now the purchaser is looking at converting the building back again to its original use: housing.

Stockholm is growing, and it needs new housing, new residential districts and an expanded infrastructure. Hammarby Sjöstad, Söderstaden and Liljeholmen are examples of residential conversion projects that will reshape Stockholm and extend the inner city to the south, or have already done so. An example of a large-scale conversion and expansion of the inner city is the conversion of offices in Nacka Strand. Altogether, about 50,000 m<sup>2</sup> of lettable premises will be converted and replaced by about 450 housing units. The area will also be made denser, which will create about another 100,000 m<sup>2</sup> of housing through new production. In the past Nacka Strand has always been grappling with high office vacancies, even though several large companies including Telia, Ericsson and Apoteket had their head offices there. Two other large conversion projects on the outskirts of the inner city are worth noting in this context. One is JM's acquisition of the 26,000 m<sup>2</sup> office property Racketen 10 in Alviks Strand in Bromma during 2015. JM plans to convert the property to accommodate 500-600 apartments. (Newsec acted as adviser to the seller in the transaction.) Although there was no zoning plan for housing, JM was willing to pay a price for the estimated gross floor area in new zoning plans that was fairly close to the price in the accepted zoning plan. Another similar acquisition was when Oscar Properties bought the property Primus 1 from Vasakronan for SEK 920 million at the end of 2014. Their plan is to replace 26,000 m<sup>2</sup> of office premises with about


## Price development for condominium apartments

Index (2008=100)

Source: Valuegard







»More or less all suitable office buildings in the inner cities have great potential to be converted into housing sooner or later«





## 20%–40%

### INCREASED PRICES FOR BUILDING RIGHTS IN STOCKHOLM INNER CITY

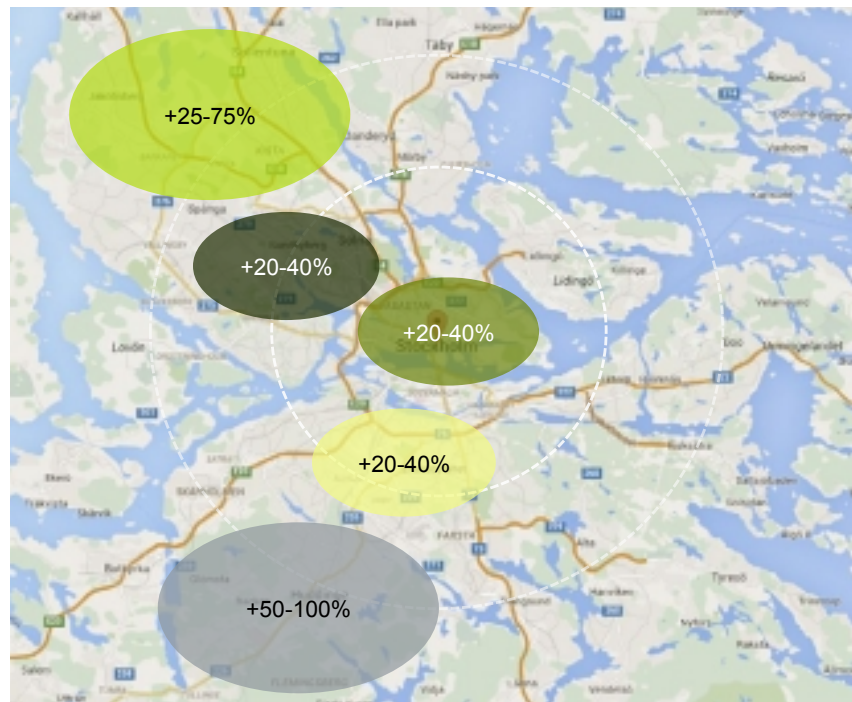
42,000 m<sup>2</sup> gross floor area of residential building rights.

#### Strong growth in the prices of residential building rights

Stockholm's red-hot residential market is being fired by a rapidly growing population, low interest rates and rising disposable incomes. Record prices are constantly being reported and, keeping pace with this trend, residential building rights have also risen strongly in value. In the past, the trend in the value of residential building rights was assumed, by definition, to be at its greatest at the point in the planning process where the approved master development plan changes into the approved zoning plan – when the project becomes concrete and uncertainty factors are eliminated. But as a consequence of the growing under-supply on the Stockholm housing market, the investors are accepting higher planning risks in their acquisition calculations.

In the last two years, the average price growth for residential building rights in the Stockholm area has been very strong. Newsec's analysis of the prices of building rights illustrates clearly how the prices of building rights in the inner city and the inner suburbs have increased by between 20%–40% while the prices of building rights in suburbs north-western and southern Stockholm have risen by as much as 50%–100% during the period. The large price rises in the suburbs are an interesting observation, since they show very clearly how the use of land has changed and how it can be greatly upvalued since it can be used for new production of housing.

People's great willingness to pay for apartments, especially on the condominium market, makes it much more advantageous to prioritise residential building than all other types of new building.



Only services needed by the residents are given equal priority and combined with the building. Housing creates a very unvarying urban landscape, which is why the councils are sometimes choosing to sell land intended for the building of, for example, offices in defiance of other economic considerations compared with the building-rights market for housing. For example, the City of Stockholm sold building rights in Hjorthagen in Stockholm to Wallenstam Fastigheter in December 2015. The land reservation means that Wallenstam, for the period of one year, has an option solely to negotiate with the City of Stockholm about a land allocation agreement for the land reservation area regarding new buildings that will include housing, retail stores, offices and hotels. The purchase price was SEK 29,000 per m<sup>2</sup> of GFA for housing, SEK 12,000 per m<sup>2</sup> of GFA for retail premises and SEK 10,000 per m<sup>2</sup> of GFA for offices and hotels. This

is a good example of how land that has a higher value as residential building rights is sold for other uses in order to preserve the urban landscape.

#### Movements on the property market

More than 30 years ago it was said that there was no land in central Stockholm intended for office building. At that time large office blocks were built in Farsta (Telia), Råcksta (Vattenfall) and Rissne (SEB). Today these locations are no longer available for offices, and housing is being built there instead. The present trend is that the inhabitants of Stockholm want to live in the centre, but the great majority cannot afford to. Better public communications, together with higher prices, make it possible to build residential premises further out in Greater Stockholm. On the other hand the offices are moving towards the city and the inner suburbs such as Arenastaden, Västra



## »A market window for the development of residential building rights in the suburbs of the major cities continues to exist«

Kungsholmen and Hagastaden. These workplaces are therefore accessible to more people since they are located close to the central public-communications hub. The strongly rising housing-prices make new production possible anywhere in Stockholm, with the consequence that land prices are also rising strongly. Even though as many properties as possible in the inner city are being converted to housing, it is still in the outer Stockholm areas that by far the largest numbers of housing units are being built. The result is often that both industrial and office areas that previously had limited attraction become more attractive because the competing areas are being replaced with housing.

### Monetising the development

Office areas that lie on the border between the inner city and the suburbs, or

in the nearer suburbs, should continue to have a strong development potential in the future. This is because their catchment area covers both the inner city, where offices are being converted to housing, and the inner suburbs and other suburbs where the greatest share of the new production is actually taking place. Our judgment is that a market window for the development of residential building rights in the suburbs of the major cities continues to exist. The risk that the residential market may collapse is viewed as relatively low since the fundamentals of the Swedish economy remain strong. Even though it is almost certain that we shall see higher interest rates within the next two years, there is very little to indicate that unemployment will rise, which means that people will move away from consumption in order to pay for their housing. This in turn indicates stable

house-prices, although the explosive rising prices that we have seen in recent years should be over. This therefore suggests that the prices of residential building rights will continue to lie at a stable level. A winning strategy should continue to be available of buying office and industrial properties (with stable ongoing cash flows) in the suburbs in order to investigate the possibility of winning residential building rights on the land. If this does not work, the areas will probably still benefit since the demand for premises will increase when surrounding areas are converted to housing.

Sources: Newsec, Valuegard





»There has been a steadily increasing interest in residential properties in recent years and several major housing projects are planned or under way«





# THE SWEDISH PROPERTY MARKET

## RECORD-HIGH TRANSACTION VOLUME IN THE FIRST HALF OF 2016

### The investment market

The first half of 2016 has been characterised by several large transactions. The total half-year transaction volume is higher than in the record years of 2014 and 2015. At SEK 94,0 billion (transactions over 40 MSEK) the half-year volume is the highest recorded. The volume is spread over 262 transactions compared with 246 transactions for the same period last year. Newsec predicts the total transaction volume to reach new record levels at SEK 180–190 billion.

One factor contributing to the continuing high interest in property in 2016 is the low interest rate. The Swedish central bank, Riksbanken, announced in September that the repo rate would remain unchanged at –0,5%. One of the reasons for this is Britain's vote for Brexit, which created financial concern. However, the Riksbank believes that this will initially have limited effects on the Swedish economy. The volatile global stock markets and low yields on the bond market are other factors. The Swedish economy remains strong with a high growth rate, a strong labour market and high private and public consumption. With an uncertain environment and to ensure that the inflation target of 2% is met, the monetary policy needs to be expansionary. The low-interest-rate environment is therefore expected to continue until 2017/2018, when the repo rate will be steered towards zero. Relatively good access to financing and lack of high-yielding alternatives is forecast to contribute to a continued high interest in property and high transaction volumes throughout 2016.

During the first half-year, institutions and private property companies have been the most active on the selling side. Together they accounted for almost 60% of the transaction volume, or 33% and 25% respectively. On the buying side,

listed property companies have been the largest investors during the year and accounted for more than 30% of the volume, followed by private property companies with 27%. In recent years many private property companies have been refining their property stock into a more distinct core business as well as searching for secure placements such as residential and public properties, but also including commercial properties with good locations and stable tenants. Listed property companies are in a good investment position because properties have been a good alternative to stock market investments.

Interest in properties in Sweden's major regional cities continues. Almost 35% of the total transaction volume up to June has occurred in cities other than Stockholm, Gothenburg and Malmö. Stockholm still dominates geographically with 28% of the transaction volume – but with only two of the top ten transactions, and only one of those in the CBD area. The largest transaction so far this year is also the second-largest transaction ever made in Sweden. This was a transaction between two property companies, whereby Castellum acquired Norrporten with its portfolio worth SEK 22 billion. The portfolio is geographically spread throughout Sweden and Denmark and consists mainly of office and industrial premises but also includes a substantial number of retail and residential properties.

In the first half of 2016 the most popular segment has been office properties, totalling more than 40% of the volume. In second place, with a 24% market share, come residential properties. There has been a steadily increasing interest in residential properties in recent years and several major housing projects are planned or under way, mainly in Sweden's major cities. Interest in retail continues

to be stable, which reflects the forecast by the Swedish Institute of Retail (HUI) of continued stable growth in the retail sector. Because of the continuing upward trend in the property sector, it is seen as a good alternative to a safe investment, particularly for institutions. Residential and office properties are the most interesting, but also public properties which often have long rental agreements and safe tenants. Further investments in public properties also go hand in hand with Sweden's ongoing demographic changes.

The share taken by foreign investors during the first half-year has fallen significantly, to a figure of just 12% compared to last year's 22%. This can largely be explained by the exceptional acquisition by Castellum which made up a large proportion of the total volume. Newsec believes that the transaction market will remain strong during 2016 and will be characterised by major structural and portfolio transactions. Our forecast is that foreign investors will actually increase their share of the transaction market against the levels of 2015 by the end of the year.

### The office market

Newsec estimates the total office stock in Greater Stockholm at approximately 12.3 million m<sup>2</sup>. The largest share of office space in the Stockholm region is located in the municipalities of Stockholm, Solna, Sundbyberg and Nacka. Stockholm CBD is considered to be the most attractive office area, with a total stock of about 1.9 million m<sup>2</sup>, while Stockholm inner city excluding the CBD has an office stock of about 4.3 million m<sup>2</sup>. Many larger companies have recently relocated to new office space outside the inner city, often combining several existing offices and setting up new operations in the inner suburbs. In 2016 Newsec forecasts that about

## »High office rents as a result of high demand together with small supply of modernised office space in the CBD«

225,000 m<sup>2</sup> of new or rebuilt office space will be completed in Greater Stockholm, corresponding to approximately 2% of the total office stock.

In recent years the building of new office space in Stockholm has changed and is now focused on clusters outside central Stockholm. Many of these areas lie north of Stockholm with good communications to the inner city and to Arlanda Airport. Good infrastructure is important in judging a project, and recently started and ongoing infrastructural changes will have a great impact on the development of Stockholm. The new Citybanan rail line will be finished in 2017 and will have a positive impact on the office market in the western areas of the CBD. The new line will increase passenger capacity through the inner city, with two new stations at T-Centralen and Odenplan. Today Stockholm is more or less divided into two areas, with a large proportion of offices located in the north. This means that there is particularly large pressure on infrastructure in the south since the largest share of daily commuting is from the south to the north. The pressure will increase even more as a result of Hagastaden and Arenastaden, two of Stockholm's largest urban development projects just north-west of the inner city.

There are a number of speculative office-development projects scheduled for completion in the next few years. The projects in progress are Uarda 6 in Arenastaden, NCC's Torsplan stage 2 at Norra Station in Stockholm inner city, and Skanska's Stockholm Seaside in Hammarby Sjöstad. All these projects are fully or almost fully let before completion. Two speculative office-development projects were recently completed – Faberge's Scandinavian Office Building, fully let to Telia, and Uarda 7, almost fully let, in Arenastaden.

The relocations of several large companies in recent years 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 buildings and attractive premises in inner-city locations and the fact that announced future moves will be in a few years' time, has resulted in today's low vacancy rate of 2.5%. The prevailing low vacancy level has in turn led 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, called Urban Escape, will provide about 70,000 m<sup>2</sup> of new or rebuilt office space when it is completed in 2019, of which 30,000 m<sup>2</sup> is already let to Spotify and Roschier. Meanwhile Vasakronan's total refurbishment of Klara C, which will provide 28,000 m<sup>2</sup> of office space, is scheduled for completion during the third quarter of 2016. Klara C is fully let. The forecast vacancy rate for Stockholm CBD at the end of 2016 is expected to be just over 2%. The expected refurbishment vacancy at the end of 2016 is 5.5%, which gives a total vacancy of 7.5% in Stockholm CBD.

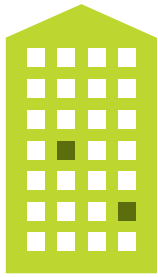
The average market rent for office premises in Stockholm CBD at the end of the second quarter was around SEK 5,150 per m<sup>2</sup>. Newsec expects the market rent to rise to SEK 5,300 per m<sup>2</sup> by the end of 2016. Top rents above SEK 6,000 per m<sup>2</sup> have been confirmed by some of the major office owners in Stockholm CBD. Even levels above SEK 7,000 per m<sup>2</sup> have been confirmed in solitary cases. This is a result of the small supply of modernised office space in the CBD together with high demand. The rise in market rent is expected to continue into 2018.

The commercial office market in Gothen-

burg comprises an office stock totalling around 4.6 million m<sup>2</sup>, which includes the stock of neighbouring municipalities. The inner city comprises a number of districts and covers a large geographical area. Its office stock totals around 900,000 m<sup>2</sup>. In the next two years, Newsec estimates that about 65,000 m<sup>2</sup> of office space will be added to the market in Gothenburg, with the largest areas arising in the Almedal/Krokslätt district (about 13,000 m<sup>2</sup>) together with Norra Älvstranden (about 15,000 m<sup>2</sup>) and the CBD (about 22,000 m<sup>2</sup>).

Several projects are planned to be finished in time for Gothenburg's 400th anniversary celebrations in 2021. At the beginning of June, Jernhusen's contribution was presented. The project includes a high tower of 22 storeys and will provide mainly offices but also retail stores and restaurants. In the next few years there will be an additional supply of office space in Gårda/Ullevimotet. Platzer and Skanska are currently working to prepare a zoning plan for building high-rise blocks providing a total gross area of about 60,000 m<sup>2</sup>. These projects will be named Gårda Skyline (Platzer) and Göteborg City Gate (Skanska). The building of Göteborg City Gate is scheduled to start towards the end of 2017. Serneke's spectacular Karlastaden project with the much-discussed Karlatornet skyscraper is currently awaiting approval of the zoning plan. The skyscraper will be 266 metres high, making it the tallest building in the Nordic region. Apart from Karlatornet, the district will consist of a number of blocks with housing, offices, retailing and services. The project is planned to be completed around 2021. Karlastaden is part of the Nordic region's largest city development project, Älvstaden.

The vacancy rate in Gothenburg CBD has fallen during the year. It currently stands



7%

## EXPECTED VACANCY RATE MALMÖ CBD 2016

at 4.6% and is expected to continue downwards to 4.3% at the end of 2016. It remains difficult to find modern premises over 1,000 m<sup>2</sup> in the CBD and companies are therefore resorting to newly built premises elsewhere, which has had a positive effect on the inner city.

The rent level in Gothenburg CBD is continuing to increase. The market rent currently lies between SEK 2,600–SEK 2,700 per m<sup>2</sup>. Top rent in the CBD is estimated at SEK 3,200 per m<sup>2</sup>. The market rent in the inner city is also continuing to rise. At the end of the past quarter the market rent was reported to be around SEK 2,200 per m<sup>2</sup> with top figures around SEK 2,700 per m<sup>2</sup>. The highest rents in the inner city are found in the newly built stock at Ullevi. Newsec expects that the rental market in Gothenburg will continue to be stable, since demand is expected to remain good.

The commercial office stock in Malmö totals just over 2 million m<sup>2</sup>. 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 m<sup>2</sup> to Malmö's office stock. For 2016 Newsec expects the new building stock to total about 63,000 m<sup>2</sup>. There is plenty of land in attractive areas such as Hyllie and the district round the Central Station, which gives good opportunities for a continuing good pace of new construction in Malmö. This affects the older stock, which must constantly compete with the newly built, and Newsec has noted a number of conversions to apartments in older office buildings situated in good locations.

The vacancy rate in Malmö CBD fell further during the second quarter of 2016 and now stands at a level around 5.8%. However, the vacancy rate is expected

to rise to 7.0% by the end of 2016 due to new added office space. In Malmö CBD the market rent is estimated at around SEK 2,150 per m<sup>2</sup>, while a top rent of around SEK 2,800 per m<sup>2</sup> has been reported. Newsec forecasts stable rent levels during 2016, with an upward tendency.

### The retail market

Retail trade has shown positive growth of 4.5% so far this year. The increase is largely in durables, which have grown by 5.3%. The strong growth rate of 5.9% seen in 2015 can be linked to a stronger general economy. Factors such as a stable labour market, low interest rates, low inflation and increased savings combined with an increasing population are all contributing to a continued good outlook for 2016. HUI forecasts that total household consumption will increase by 3.1% in 2016 and 2.7% in 2017. However, HUI does not believe the growth in retail trade will exceed that of 2015, because of higher taxes and new mortgage amortisation requirements that will affect household spending. Retail sales growth is therefore expected to be lower, with growth of 4% in 2016. There has been a decrease in the volume of retail transactions. During the first two quarters about 14% of the volume was retail compared with about 20% for the same period last year.

In the next few years Sweden will experience a record population increase, and ongoing urbanisation will heavily affect demand in all the major cities. Up to 2025 there will be an average increase of 110,000 people a year. The growing population along with the rising trend towards e-commerce has led to fierce competition between different types of shopping destinations, which makes factors like location and quality of premises increasingly important in attracting both consumers and tenants. E-commerce has been growing for many years, and in the

first quarter of 2016 it grew by 15%. There are many explanations for this continuing growth: for example, the important role of phones in the purchasing process and retailers' investments in 'omnichannels'. In comparison, the growth figure for shopping centres in Sweden was a modest 1.5% during the first quarter.

Shopping centres have been increasing in size and their premises are being let at new top rents. Newly built and newly renovated shopping centres in the best regional locations outside Stockholm are now at the same level as top rents in Stockholm CBD, and more retail space is yet to come, not only in Stockholm. Mall of Scandinavia in Solna, which opened in November 2015, is the single largest retail establishment in Sweden. Other projects are however expected to have a larger impact on their surroundings as new large retail space is being built in Sweden's regional cities. There has also been an increased interest in developing city centres. Since many new large establishments have been built outside city centres, numerous developers are now looking inwards at the possibility of developing the inner city to compete with the large retail centres. 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.

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# THE NORWEGIAN PROPERTY MARKET

## SHORTAGE OF GOOD OBJECTS ON THE NORWEGIAN PROPERTY MARKET

### The residential market

The first half-year saw very strong growth in residential prices. However, there are significant regional differences and a clear three-way split in the prices of housing in Norway. The Stavanger area has actually shown a decline, while there is a moderate and normal upward trend in cities such as Bergen, Kristiansand and Tromsø. But central eastern Norway, and especially Oslo, has never experienced such strong price growth. Residential prices in Oslo rose on average by 1.8% in July, and we now have a formidable 12-month growth of 15.2%. The rising prices in Oslo are expected to continue throughout the autumn and may produce a 12-month growth of over 20% for 2016.

The reasons for the explosive growth in prices are complex but can be explained mainly by historically low interest rates and by low residential construction in Oslo over many years. Too little housing has been completed in relation to population growth. The supply of land approved for development is the bottleneck in the system, and developers are finding that the regulatory processes take too long.

Politicians have initiated plans both to speed up regulatory approvals and also to simplify building requirements. But these plans will take time to produce results and will not move the residential market in the desired direction in the short term.

The historically low interest rates are undoubtedly another strong driver of the current price inflation, and explain why housing prices are rising so much faster than real wages. Lower interest rates make it possible to raise more debt to enable the purchase of expensive housing. But this cannot continue forever. Today's central-bank interest rates are close to zero and there is little further scope for

interest-rate cuts. They alone would not be able to drive prices up in the future.

Rents also have a correlation with residential prices, and statistics for July 2016 show that it has never been more expensive to rent a small one-bedroom apartment in Oslo, which now costs on average NOK 11,946 per month. This is further confirmation of the present housing shortage and the lack of adequate new building in relation to population growth.

Assuming that interest rates remain at current levels and that there is no drastic increase in unemployment in Oslo and the surrounding area, it is therefore hard to see any arguments that prices will decline in the future.

### The investment market

After a relatively quiet first quarter, the market gained good momentum into the summer, with increasing liquidity and the banks clearly open for business. However there is a shortage of good projects, and those handled in the first half-year have consequently aroused a lot of interest.

In the first half-year the total transaction volume in Norway was about NOK 30 billion, spread over 100 transactions. This year's largest transaction was the sale of the 67,000 m<sup>2</sup> Statoil building at Fornebu to an Arctic Securities syndicate, guaranteed by Trond Mohn, for NOK 3.9 billion. This represents about NOK 58,000 per m<sup>2</sup> and a yield of 5.2%. The second-largest transaction was the selling of the NPRO portfolio at Skøyen. With a value of about NOK 2.53 billion this gives a yield around 4.7%–4.8%.

Koksa Property is now in the market with the Scandic Fornebu hotel, with pricing expected around a 5% yield. Two other major projects on the market are the ICA portfolio, with a target price up to

NOK 2 billion, and a large residential portfolio in Trondheim.

Residential projects in the Oslo area are also very attractive these days. The combination of low interest rates and the general imbalance between supply and demand is leading to record high sales of new-build residential properties and to rising prices.

We feel that the market is willing to take more risk and pay more for projects now than in the same period last year, while the settlement structure favours the seller, with a larger percentage of settlement up-front.

### The office market

The uncertainty among tenants is continuing, and we find that negotiations are still long and complicated with tenants who have a strong focus on including options for area flexibility in their contracts. In summary, we are currently in a quiet period with long stalling processes and relatively few signed contracts.

The market has waited a long time for the more than 40 letting searches that came in during the second quarter. Several major searches came from the public-property agency Statsbygg, who were seeking everything from premises of 350 m<sup>2</sup> for the civil-defence organisation DSB up to 35,000 m<sup>2</sup> for the labour and welfare administration NAV.

Statsbygg and other large organisations seeking lettings, including IBM, the Railway Directorate and the NHST Media Group, have leases maturing in 2018/2019. The letting processes will be exciting to follow, not least in seeing whether the choice is for relocation or an extension of the present lease. The Tax Authority has already decided to extend its lease at Schweigaardsgate 17–19 until 2028.

## »Shopping centres in Norway are steadily losing ground and turnover to e-commerce«

The total volume of signed contracts in the second quarter was 190,560 m<sup>2</sup>, which is the largest quarterly volume since the end of 2013. Four contracts of 9,500 m<sup>2</sup> or larger were signed. The average rents in contracts signed in Oslo increased by 6% from NOK 1,820 per m<sup>2</sup> in the first quarter to NOK 1,930 per m<sup>2</sup> in the second quarter. In the city's A-class (representing the 15% most expensive contracts) rents increased by 10%, returning to levels of NOK 3,200 per m<sup>2</sup>. In general the central areas saw a strong increase in rents while the outer areas east, west and south of the city saw a decrease in rents. We are now looking forward to an autumn with a good level of activity.

The vacancy rate for offices in Oslo is now 8.3%, which translates to 722,000 m<sup>2</sup>, a reduction of 21,000 m<sup>2</sup> since the first quarter of 2016. The vacancy rate is closely related to rent levels. We have lately witnessed a fall in rents in some outer areas such as Lysaker and Skøyen, and since an increase in vacancy is now expected, there could be a future decrease in rent levels affecting Bryn/Helsfyr, Lysaker, Skøyen and Oslo Outer East. This effect will probably not be as big in more central locations such as the CBD and inner-city areas where the present vacancy is low.

### 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 department stores and specialist retailers in the city centre for major purchases and luxury items. But 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 retailing.

As in the two previous years, we have again carried out our analysis of changes in rent levels for the shopping centres we value. Every year we conduct more than 100 valuations of shopping centres, representing a total value of approximately NOK 75 billion. For our rent analysis this year we selected the 46 properties that were valued in both 2014 and 2015. In this way we ensure that the rent has been adjusted for CPI. Furthermore, the figures are washed for any development of the property, or anything else that provides an artificial change in the rent, so that we are comparing like with like. The result is the same as both last year and the year before: rents are not keeping pace with the rising CPI.

In the past year there has been a turnover growth of 5.7% in the 60 largest shopping centres, but this is a very modest figure when offset by Norway's fast-increasing inflation, which has risen from 1.8% in July 2015 to 4.4% in July 2016, its highest value for seven years. The difficulty in obtaining significant real growth encourages tenants to renegotiate their rent and demand discounts.

One major reason for the static or declining revenues of many traditional retailers is that consumers are increasingly shopping online. E-commerce increased its turnover by 13% last year and accounted for 6% of total retail sales. With this growth rate in combination with the general growth rate of retail sales, e-commerce will account for NOK 50 billion before 2020. Although not every penny spent online is a penny lost to the shops, it is beyond doubt that shopping centres are steadily losing ground and turnover to e-commerce.

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# THE FINNISH PROPERTY MARKET

## FIRST HALF OF 2016 REACHED RECORD LEVELS

### The residential market

The housing market in Finland is in a constant state of evolution, dictated by changes in population structure and household preferences. Significant demographic changes, especially the ageing population, will affect the future structure and orientation of housing demand, and will start to manifest themselves in the housing market in the 2020s. It can be predicted that future demand will focus more on small apartments located in city centres and close to services.

In growth centres the rental market is active as there is both supply and demand; the much talked-about lack of rental apartments is unfounded. There is plenty of new, high-quality supply, especially through housing funds. At the same time, traditional lessors – investment companies, private individuals and pension companies – have not reduced

their investments in housing. Much of the demand is generated by domestic migration and increasingly also by immigration. However, a difficulty is that rents follow property prices, and both prices and rents in the most desired areas are high in comparison with consumers' solvency. But if apartments sell and can be rented out, they will be constructed.

Future housing demand will depend strongly on the population structure of each housing market area. The effects of an ageing population will be less evident in areas that have experienced migration gain than in areas where the population is falling. In the next 5 to 15 years, the increasing migration of older people towards city centres will be a significant factor. The Baby Boomer generation are moving into smaller apartments near city centres, seeking close proximity to services and higher-quality living. This will leave

a large number of larger apartments on the edges of urban areas. Especially in areas affected by migration loss, the demand for these apartments will decrease, particularly as fewer people start families. This structural change should be taken into consideration in future housing production, especially the production of larger apartments, detached houses and detached-house plots.

The housing market is clearly divided into two: owner-occupiers and investors. Investments in rental apartments are still popular, and the competition for them has already reduced the yield-levels of investments in apartments (whether individual residential apartments or a portfolio). Competition has raised return-levels to a challenging level. On the other hand, building of non-subsidised housing can now be seen in the markets: rents have stopped rising and in many places, e.g. in the Helsinki Metropolitan Area, competition for good tenants has increased in the last few years. High occupancy rates, especially in growth centres, provide a strong basis for residential investments.

### The investment market

High activity in the property market continued during 2016, and the transaction volume in the first half of the year was EUR 4.2 billion. This is far greater than in 2015 when the transaction volume for the whole year was EUR 5 billion, or in the record years of 2006 and 2007 when the transaction volume exceeded 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 lack of good investment properties in Europe's main market areas, and the low yield-levels prevailing there, are continuing to drive investors to seek higher yields and spread their risk in Scandinavia and Finland. On the other hand, domestic



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## »Investment activity is expected to remain relatively high this year, even though Finland's economic indicators seem weak and the tenant market is passive«

pension capital has been passive on the buying side and has looked to foreign investments and domestic funds for its risk-spreading.

Investment activity is expected to remain relatively high this year, even though Finland's economic indicators seem weak and the tenant market is passive. The yield-levels available in Finland's property market are attractive to foreign investment capital, and there is capital ready and waiting for good investment properties. Low interest rates continue to support the use of foreign capital, but on the other hand tend to keep yield-levels low. Slow economic growth together with banks' increasing caution will have a cooling effect on overheated property markets. However, the fluctuation in stock-markets can generate interesting buy-options when interest in property investments might otherwise decrease.

Property investment capital from abroad has continued to flow into Finland. The Swedes and the Germans have been particularly active in the market. According to the Finnish property information service KTI, some twelve new foreign investors arrived in Finland during 2015, which partly explains the increased transaction volume.

The increased demand has had its effect on property pricing. Yield levels have started to fall in some of the best properties as the competition has increased. Common factors attracting interest in properties are a good location (especially the Helsinki Metropolitan Area), a modern building and long lease-maturity. The yield level of a good office property in downtown Helsinki and around it is below 4.5%. An unprecedented number of property transactions have taken place in and around the Helsinki city centre

this year. At the same time, demand and transactions have spread to a wider area. The increased activity has been shown over the past year in a shifting of interest to the best properties in the weaker areas and the less desirable, B-class properties in prime areas.

In 2016 there have also been opportunistic transactions with larger risks, typical examples being developments of empty or half-empty office buildings. The leverage from the low interest rates and competition for 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. New to the market are plot funds.

### The office market

The office leasing market continues to be a tenant's market. It faces an oversupply of office space which is a long-term phenomenon that will not be resolved simply by new jobs. There is no economic boom in sight that would fill the vacant office stock. The demands imposed by users are changing, more efficient use of space is sought, and various shared-use and flexible solutions will compete with the traditional office market. However, the oversupply will be somewhat reduced by the conversion of office buildings to other use, or their demolition and redevelopment of the plots for different purposes. In particular, the older, more traditional office properties with private rooms will experience permanent oversupply, which is predicted to increase further when users' needs diverge even further from supply.

From a European point of view, Finland offers better yields than most of the major markets and has fairly similar risks to other Eurozone countries, despite the rather limited size of the market. Helsinki's prime office properties had a net yield of 4.5%–5.5% last year, although this has fallen to below 4.4% in recent transactions. In London, Berlin, Paris and Frankfurt, net yields vary between 3.25%–4.35%. In the other Nordic capitals, net yields vary between Stockholm's 3.7% and Copenhagen's 4.25% and in these markets, unlike in Finland, currency risk is a factor to consider.

The large railway projects in the Helsinki Metropolitan Area – the Kehärata ring line in Vantaa to the north, which opened last year, and the Länsimetro to Espoo in the west, currently being built – are causing a high proportion of new construction to focus on the areas near the new stations. This applies to office, retail and residential construction alike.

### The retail market

The retail market has also undergone changes in recent years. Several new operators have entered the market and the nature of the market has changed to a multi-channel form. The traditional retail-sector operators have adapted and tried to keep up with the changes.

The Tripla in Pasila and Redi in Kalasatama are leading the way in retail space construction, but other smaller local retail projects together with strong residential property production are emerging in the vicinity of several railway stations, e.g. at Kivistö in Vantaa.

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# THE DANISH PROPERTY MARKET

## TRANSACTION VOLUMES IN COPENHAGEN REACHING HIGH LEVELS

### The residential market

In some areas of Copenhagen housing prices have increased by between 46%–68% since 2012. In the second-largest city, Aarhus, prices are at almost the same level as in Copenhagen. But in other parts of Denmark outside these cities there have been no notable increases at all. In some of these places prices are between 21% and 53% lower than the average price level in Denmark, while the prices in Copenhagen are 141% higher than the average.

In Denmark there are 2.8 million privately owned homes. Of these only 63,000 are apartments in Copenhagen city, which thus represent about 2.3% of the total Danish housing market. When the Danish newspapers write about the property market and how fast it is moving, these apartments in Copenhagen are over-represented.

The average selling time for the average house in Denmark is more than 200 days, and it has been so since the end of 2009. But apartments in Central Copenhagen and Aarhus City are sold within 70 and 83 days respectively. So when arguing that prices on the Danish housing market are increasing fast, it should be realised that the price pressure is extreme only for relatively few privately owned homes in the two biggest cities. The problem should not be ignored but is less serious – and less common – than it often appears.

It is very important to remember that in the country as a whole, outside the two major cities, the greater part of the total housing market is developing very slowly – to the extent that in some places the banks are unwilling to issue mortgages on the security of the houses.

The main reason for the rising prices in Copenhagen and Aarhus is that these two

cities are growing all the time, whereas the opposite is happening in some of the smaller cities in Denmark. It is predicted that Copenhagen will grow by almost 100,000 citizens over the next ten years and Aarhus will grow by around 40,000. Young people in particular move to Copenhagen and Aarhus to study, and in Copenhagen by far the largest proportion of the population is between 20 and 29 years old. The second-largest group is 30 to 39 years old, and the third-largest 40 to 49 years old. These last two segments have some of the highest incomes in Denmark, which may be another reason for the increasing prices in the Copenhagen housing market.

Growing activity in the housing market leads to a higher demand for residential investment properties. Although the vacancy rate is close to zero there are very few new residential properties being built in the City centres, whereas there is a much higher vacancy rate for some commercial properties. Investors must then consider the risks of owning different types of properties whose vacancy rates vary between near zero and around 8%.

Because of the high demand and the difficulty of finding plots or land in central Copenhagen and Aarhus where new residential properties can be developed, it has become very popular to convert empty office buildings for residential use. When the Danish government announced recently that around 3,900 jobs were to be moved out of the Copenhagen area to the rest of Denmark, many investors began to speculate about which of the 'soon to be empty' office properties could be converted to residential apartments.

### The investment market

The long-term discount rate has continued to be low and this encourages the investment market. The historically low

interest rates have lent a supporting hand to the Danish economy, benefiting homeowners and property investors in particular.

In 2015 activity on the property market in Copenhagen and Aarhus returned to the same high level as in the years before the financial crisis, and this activity seems likely to continue in 2016 and 2017. The total transaction volume in 2015 added up to DKK 47 billion. The estimated transaction volume for 2016 is DKK 65 billion. The high demand for investment properties and development projects has resulted in rising prices for centrally located properties. At first the increase in prices was centred mainly on Copenhagen and Aarhus, but it now seems to be spreading to other major cities in Denmark and creating greater interest in investments there. The returns on most traditional alternatives to property investments remain low, and investors are therefore now looking at projects outside their traditional comfort zone – and investing in other larger Danish cities.

### The office market

In theory rising employment should produce a decline in commercial-property vacancy rates – and we have seen both in recent years, especially in Copenhagen city. In Central Copenhagen the vacancy rate for offices has fallen from 8.7% to 7.7% since 2010, while the unemployment rate in Copenhagen has fallen from around 6.5% to 4.6% percent in the same period.

Developments in technology and IT are also allowing companies to adopt new working methods which will change the demand for offices of different types. Workplaces will generally need smaller areas, and companies will not need to expand their space as much as in the past.

## »International investors are queuing to buy prime-located retail properties in central Copenhagen«

After remaining stable for some time, rents have now been increasing for the last two years. The reason is that some of the new prime office buildings in the Copenhagen area are beginning to be occupied by tenants.

### The retail market

As always, international investors are queuing up to buy prime-located retail properties in central Copenhagen. And because of the limited supply there, investors have also begun to invest in Aarhus.

Now we are meeting investors who are asking for retail properties located in the Greater Copenhagen area or in some of the other larger cities in Denmark. They are searching for value-add properties in particular.

Rents have been increasing for the last ten years despite the financial crisis, and the rental level in Copenhagen is currently around DKK 23,500 per m<sup>2</sup> for the very best locations. The main reason for the increase may be the turnaround

there has been in the prime shopping areas of Copenhagen. Whereas Østergade / Kgs. Nytorv was once considered the most exclusive area in Copenhagen, the renovation of Illum has now increased the number of luxury brands based in the area around Amagertorv, where you can already find Louis Vuitton and others, and Prada soon.

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# THE BALTIC PROPERTY MARKET

## ACTIVE BEGINNING OF 2016 IN TERMS OF TRANSACTION VOLUMES

### Lithuania: A significant increase in Lithuania's property investment volume is expected

#### The residential market

The first half of 2016 saw extremely active sales in the primary housing market of Vilnius. Developers sold more than 2,000 new apartments (about 335 per month) – 20% more than in the same period last year. For the first time in more than a year, sales of middle-class apartments exceeded economy-class sales. Middle-class apartments accounted for about 50% of sales, economy-class for 40%, and the remaining 10% were in the luxury housing segment.

For several successive quarters more apartments have been purchased in Vilnius than have been built. Since the end of 2015, the average price for new apartments in Vilnius has risen by 5% to nearly EUR 1,700 per m<sup>2</sup>, while prices of luxury apartments on sale in 2016 have been as high as EUR 5,000 per m<sup>2</sup>.

#### The investment market

After a record-breaking year for the Baltics in 2015, 2016 has remained active in terms of property transaction volume. In the first half-year Lithuania reported sales of almost EUR 90 million. Office and retail were the most active investment segments, accounting for more than 68% of the total transaction volume. The hotel segment was also active, with 16%. A significant increase in the country's property investment volume is expected during the second half of 2016.

Although yields have decreased significantly in recent years, there is still an attractive gap compared to Western European levels. Average yields for prime retail and office properties 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 June 2016 the stock of modern office premises in Vilnius was 442,400 m<sup>2</sup>, or 0.82 m<sup>2</sup> per capita. This is an increase of 37,900 m<sup>2</sup> of GLA (9.4%) since the end of 2015. During 2016–2017 the Vilnius office market is expected to grow by about 150,000 m<sup>2</sup> of modern office space. Currently eleven out of thirteen planned projects in Vilnius are under construction. 56% of new developments in terms of leasable area are expected to be B-class.

Vacancy in Vilnius prime offices has been below 2% since early 2014, and at the end of June 2016 vacancy for A-class properties was below 1%. As long as the demand for prime modern offices in Vilnius remains, vacancy is not expected to increase noticeably, at least until several new large projects are completed by the end of 2016. At the end of June the average market rent for prime office space in Vilnius CBD ranged from EUR 14 to EUR 16 per m<sup>2</sup> per month, with top rents of EUR 17 per m<sup>2</sup> per month. In other central areas rents were in the range EUR 11 to EUR 14 per m<sup>2</sup> per month.

It should be noted that new buildings coming to the market are asking for slightly higher rents quarter-by-quarter, including paid parking lots and triple net charges. The trend of pre-lease is returning to the Vilnius office market and agreements are often signed 6–18 months in advance.

#### The retail market

At the end of June 2016 the stock of modern shopping centres in Vilnius was nearly 370,000 m<sup>2</sup>, or 0.69 m<sup>2</sup> per capita. After a few years' brake on shopping-centre developments in Vilnius by foreign investors, Nantucket Holdings completed its new two-stage Nordika Shopping Valley project (40,000 m<sup>2</sup>) in the early summer of 2016. Two other investors have updated their plans to start the development of Central Mall (60,000 m<sup>2</sup>) and the second Akropolis shopping centre (up to 70,000 m<sup>2</sup>) in Vilnius, but no earlier than 2017–2018.

At the end of June, the average vacancy in the largest shopping centres in prime locations in Vilnius stood at around 2%. 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, Sports Direct, The Pier and others.

Rents in shopping centres are set according to the size of the tenant, and vary from EUR 7 to EUR 50 per m<sup>2</sup> per month in the capital. The average rent in Vilnius prime shopping centres is increasing slightly year by year and stood at EUR 21.5 per m<sup>2</sup> at the end of June.

### Latvia: Attractive yield gap compared to Western European levels

#### The residential market

The first half of 2016 was marked by increased activity in the primary residential market of apartments in new developments. Activity in this segment increased by more than 10% compared with the



»In Lithuania office and retail are the most active investment segments accounting for more than 68% of the total transaction volume«

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

same period last year. However, despite the positive trend in this primary market for several quarters in a row, average sales of new apartments in Riga still lie below 100 per month.

Prices for apartments in new developments located in residential areas are EUR 1,200–1,900 per m<sup>2</sup>, while apartments located in the centre of the capital city range between EUR 1,900 and EUR 3,900 per m<sup>2</sup> and are as high as EUR 4,900 per m<sup>2</sup> in the quiet part of the very centre of Riga.

### The investment market

2015 was a nearly record-breaking year for Latvia's investment market, and 2016 has started actively as well. The State Revenue Service's HQ building was sold for nearly EUR 63 million, and with a few smaller deals the total transaction volume for Latvia in the first half of 2016 amounted to EUR 90 million. The office

and retail segments are still the most active in terms of property transaction volume.

Although yields have decreased significantly in recent years, there is still an attractive gap compared to Western European levels. Average yields for prime retail and office assets remain around 7.00%–7.25%, while prime industrial properties in Latvia stand at around 8.50%–8.75%.

### The office market

The office stock in Riga exceeds 600,000 m<sup>2</sup>, although new deliveries of modern offices have been insignificant during the last few years. But in the first half of 2016 the Riga office stock was finally supplemented by two private sector Built-to-Suit buildings – the AirBaltic central office building (6,200 m<sup>2</sup>) and the Tele2 office building (1,700 m<sup>2</sup>). The vacancy level in prime offices in Riga is about 3%, while

the vacancy in Class-B offices stood at 7% at the end of June 2016.

A number of premium offices are currently under construction, including Z-Towers and an office centre in the Skanstes Business district, developed by Hanner. Several more projects, including Business Garden Riga (Vastint), Ulmana Offices Park (Domuss, a part of NCH Capital), New Hanza City (ABLV Bank), a Class-A Skanstes office building (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 boasts 11 shopping centres with an average GLA of around 20,000 m<sup>2</sup>. Only four projects exceed 30,000 m<sup>2</sup>, the others being considered small or medium local shopping centres. In March 2016 the largest Lithuanian developer,

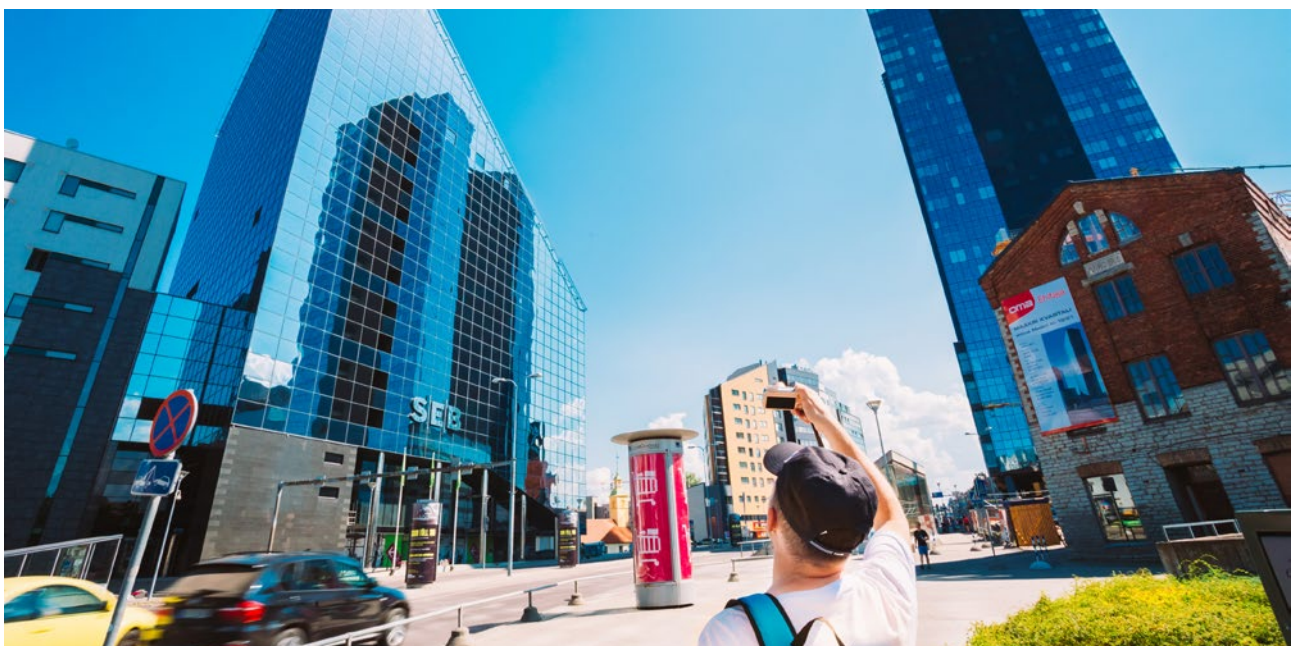


Photo: Grisha Bruev / Shutterstock





# EUR 125 MILLION

## EXPECTED TRANSACTION VOLUME ESTONIA 2016

Akropolis Group, finally announced the development of a new big shopping complex of 60,000 m<sup>2</sup> in Riga. Earlier, Linstow Centre Management announced the expansion of Alfa SC and Origo SC, and a second Stockmann department store may be added to the shopping centre stock in 2017.

In Latvia, many major brands are already located in or switching to the most successful shopping centres. Following the general trend, the market has seen new entrances including Burberry, Massimo Dutti, H&M, Debenhams, Subway, Sports Direct, KFC and others. This has ensured that vacancy in the most successful centres remains close to zero at the end of June 2016.

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

#### **The residential market**

In recent years most of the residential development in Tallinn has taken place in the city centre, but active development has now also begun in the dormitory suburbs and outlying areas nearby. In the first half of 2016 an average of 135 new apartments per month were sold. Since demand is strong, most apartments were booked and sold during the construction period.

The overall average price for apartments in Tallinn grew by a few per cent in the first half-year to about EUR 1,600 per m<sup>2</sup>. New apartments cost EUR 2,200–5,000 per m<sup>2</sup> in the city centre and EUR 1,500–2,200 per m<sup>2</sup> in the dormitory areas. The reasons for the increase in apartment prices are the low interest rates on residential loans, rising incomes, and the purchase of apartments for investment. An additional reason for buying a

new apartment is energy efficiency.

#### **The investment market**

After a record year in terms of property transaction volume in 2015, the total investment put into commercial property in the first half of 2016 amounted to about EUR 125 million. This means that the final figure for this year may be rather lower than last year, but still a good result compared with earlier years. Recently, only half of the transactions have been made by domestic investors. Another 30% of buyers were of European origin, while US investors have also demonstrated interest in Estonian property. The dominant types of investor were international funds with an established presence (East Capital, Colonna), local funds (EfTEN Capital) and private investors, as well as pension funds (Olympia Capital Management).

Average yields for prime retail and office assets remain at the level of 2015, around 7.00%–7.25%. The lowest yield for retail is 6.75%–7.00% and for office properties 6.75%–7.25%. Yields for secondary properties stand at between 8.00%–9.25%. In all the Baltic countries the capital cities are the main investment targets, with the most expensive but also the most liquid assets. As a result the yields for properties in cities other than the capitals are higher, averaging 9.00%–12.00%.

#### **The office market**

By the end of 2015 quality office stock in Tallinn had risen to over 660,000 m<sup>2</sup>, of which nearly 50,000 m<sup>2</sup> were delivered during 2015. In 2016 the volume of new office construction is expected to be even greater, with more than 75,000 m<sup>2</sup> of added GLA.

Vacancy in the most demanded areas, as well as in new A-class buildings, is still marginal, but this situation is expected to change during 2016 because of signifi-

cant new delivery in this segment. Top rent in A+-class premises is currently estimated at around EUR 16–17.5 per m<sup>2</sup> per month, and for A-class at EUR 13.4–17.5 per m<sup>2</sup> per month. The average rent in B-class offices stands at around EUR 8–12.5 per m<sup>2</sup> per month, although rents in quality buildings with sufficient parking and located close to the City Centre are as high as EUR 10–12 per m<sup>2</sup> per month.

#### **The retail market**

In the largest cities of Estonia (Tallinn, Tartu and Pärnu) the retail segment consists mostly of shopping centres. In smaller towns extended food markets are more common. In 2015 and 2016 retail development has been more active in the surroundings of Tallinn and in Tartu than in the capital city itself. But in 2017–2020 Tallinn is expected to witness very active development of shopping centres. During the next three years the total new delivery in the shopping-centre segment in Tallinn is expected to rise to 99,000 m<sup>2</sup> of GLA, including 27,000 m<sup>2</sup> in 2016. The largest new delivery of 2016 is the Mustamäe Centre (GLA 13,500 m<sup>2</sup>), opened early this year. In 2018, 36,000 m<sup>2</sup> of GLA will be delivered by the T1 shopping and entertainment centre, located on the border of the city centre and the largest residential district Lasnamäe.

In Tallinn the rent level in prime shopping centres has been stable for the last few years at EUR 21.5 per m<sup>2</sup>. Vacancy in modern shopping centres remains close to zero, although in the next 2–3 years a slight increase in vacancy level is expected due to the huge plans of the developers.

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# NORDIC PROPERTY FINANCING

It will be interesting to see what the appetite for property bonds will be when the market picks up again after the summer. In the earlier part of the year it was apparent that there was an increased interest in both large and rather smaller property companies. And also in some issues with smaller volumes.

Unsecured, senior unsecured and senior secure are different types of bonds. This is really something of a simplification, since there may be covenants etc in the structures that mean that in practice the bond may be a hybrid. The market makes surprisingly little distinction between secure and senior unsecured. That means that I place little value on whether I have some security in my structure or not. There is more focus on ensuring that there are no other lenders ahead of me in the queue. Which in itself is fine. But if anything should go wrong, it can still be of great value to have a security that I as the lender can call upon.

If the bond is completely unsecured, in practice and in principle I must be completely confident that the issuer will honour the debt and that there will be funds available for all lenders if a default occurs. And this will probably work only if the issuer is Investment Grade or Investment-Grade-like. As always, it is of course ultimately up to the lender to evaluate the external rating or shadow-rating.

But the conclusion may still be that there are surprisingly few secured bonds on the market and they are something we hope to be seeing more of in the future. Only then can the bond market become a concrete alternative to senior-bank financing, which would probably benefit all parties, both borrowers and lenders. And whatever type of financing there may be, it is of the greatest importance, as always, that the lender enters with knowledge and experience since this, beside a fair price for the money, makes it likely there will be a sound structure for all parties.

The senior banks generally resist going high on Loan-to-Value, which again is a sign of soundness. It leaves a place for junior players who put themselves above the senior lender in the structure. Either with security behind the senior bank or in a structure that lies above the senior structure. It is of truly enormous importance here that the borrower takes the greatest care when the structures are being set up and considers how and where to place securities etc. In this area there is a general unwillingness among the senior banks to admit junior lenders into their security structures. Today there are generally two or three among the senior lenders who make it work, but hopefully we shall see a more widespread understanding in the future. Structured in the right way, and with a separate

agreement that regulates what rights and obligations senior and junior lenders have – that will normally be the best structure for all parties: borrowers, senior lenders and junior lenders.

Crowdfunding financing has continued to grow, and here one player in particular stands out. Crowdfunding is used both as a junior lender and as equity, mainly in the form of preference shares. We are seeing an increase in both the number of transactions and the size per transaction. But if we look around internationally, crowdfunding in Sweden is still in its infancy.

We view the future with high expectations, since there seem to be good opportunities to create good structures in a number of different areas. And things certainly seem to be heading in the right direction in terms of getting the various financing instruments to work together even more.

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»Increased interest in both larger and rather smaller property companies«



# OUTLOOK FOR THE NORTHERN EUROPEAN PROPERTY MARKET

## Newsec five-year forecast

Newsec continuously makes predictions about the commercial property market in Northern Europe. Our ability to produce these predictions is due to our local market presence in all the Nordic countries as well as in the Baltics.

The basis for our forecast is our perspective regarding 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 concerning 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.

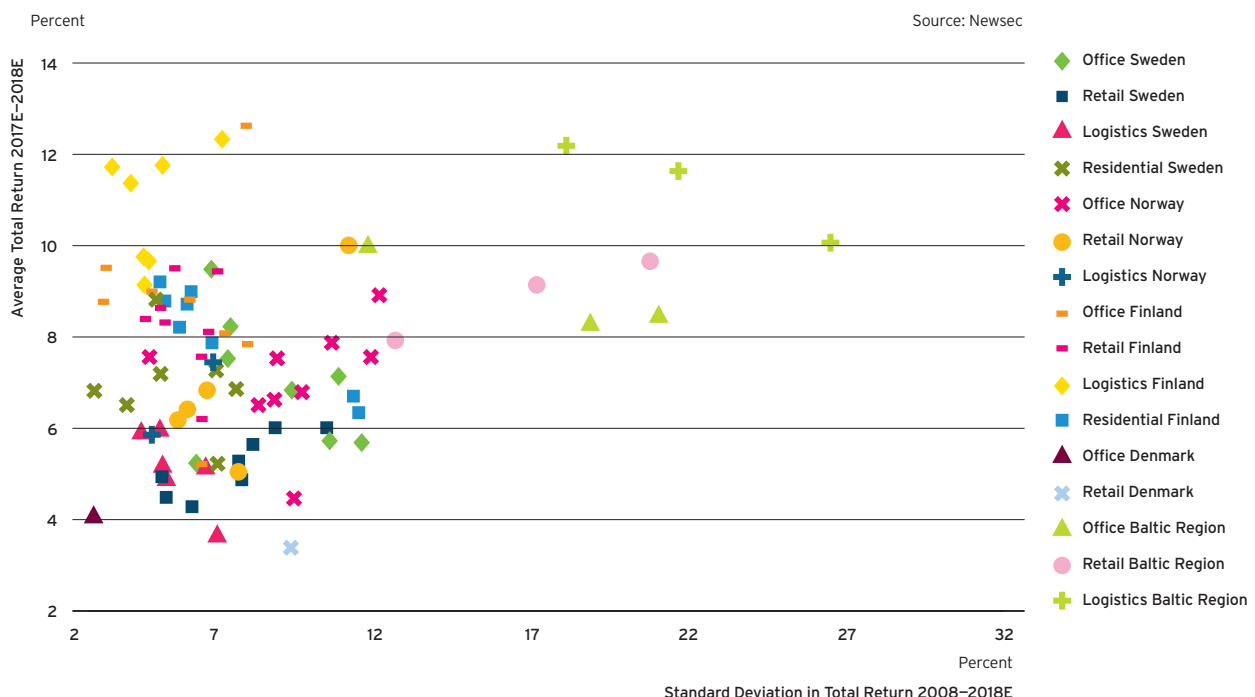
## Continuously high transaction volumes across Northern Europe

Since spring 2013 the Swedish and Norwegian 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 improv-

ing market sentiment, better credit access and historically low interest rates.

The first two quarters of 2016 have been characterised by a higher share of domestic investors on the transaction market. Only 12% of the Swedish transaction volume – SEK 11 billion out of the total of SEK 94 billion – came from foreign buyers during the first half year. In the second quarter only 6% (SEK 4 billion) of the acquisitions were made by international investors, compared with 24% (SEK 7 billion) in the first quarter. However, domestic capital has become more active on the transaction market, contributing to continuously high transaction volumes. As a result of this year's largest transaction, whereby Castellum purchased Norrporten for SEK 22 billion, the transaction volume has been skewed towards domestic transactions.

Total Return/Market Risk – 2017E–2018E









## SEK 180–190 BILLION

### ESTIMATED TRANSACTION VOLUME SWEDEN 2016

The purchase increased Castellum's accumulated property value from SEK 45 billion to SEK 71 billion.

Following the vote for Brexit in the UK, the rise in interest rates is expected to be postponed further. This will lead to a prolonged period of low interest rates which is expected to continue through 2016 and 2017. Taken together with relatively good access to financing and a lack of high-yielding alternatives, transaction volumes in Sweden are expected to remain high across all markets throughout the year.

Newsec predicts that the final transaction volume for 2016 (transactions > SEK 40 million) will reach SEK 180–190 billion – a record level. 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.

After a relatively quiet first quarter, the Norwegian transaction market has

gained good momentum into the summer and is experiencing increased liquidity. In addition the market seems to be willing to take more risk and pay more for projects now than in the same period last year. As a result of a number of transactions with record-low yields, the prime yield is expected to head down even further.

In Finland, activity in the property market continued during 2016, with a volume of large transactions close to the record years of 2006 and 2007. The lack of good investment properties and low yields in Europe's main markets are continuing to drive investors to seek higher yields and spread their risk in Scandinavia and Finland. Domestic pension capital has become more passive in Finland and looked to foreign investments and domestic funds for its risk-spreading. As a result of the increased demand, property prices are being affected. Yield levels have started to decrease in some of the best properties as the competition has increased.

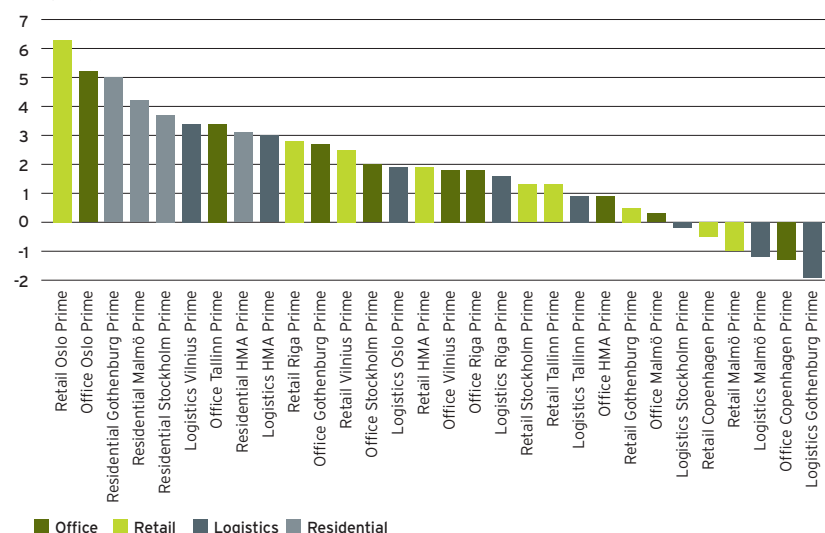
In Denmark, we are seeing transaction volumes at similar levels as before the financial crisis. The high demand for investment properties and development projects has resulted in price increases for centrally located properties. The increase in prices is particularly centred in Copenhagen and Aarhus. Since the risk-adjusted return on other asset classes remains low, investors have started to allocate more capital to other large Danish cities as well.

After a record-breaking 2015 in the Baltics, the beginning of 2016 started actively in terms of transaction volumes. The office and retail segments are still the most active in the transaction market with average yields for prime retail and office properties in the range 6.75%–7.25%. Although yield levels have decreased in recent years, an attractive yield gap between the Baltic region and Western Europe remains. The increased interest from Western European investors (as opposed to solely Nordic and Russian capital) is expected to continue through 2016. However local Baltic, Nordic and Eastern European investors remain key players in the region.

#### Expected Average Capital Growth 2017E–2018E

Average Capital Growth, Percent

Source: Newsec



#### Logistic properties in Finland are expected to show the highest risk-adjusted total return in 2017–2018

Logistic properties in Finland are expected to show the highest total return in relation to volatility for the period 2017–2018. The key driver of the high total return is the expectation of continuously increasing rents in the future. However, investors looking to invest in this segment need to choose their sub-market carefully since there are segments with similar volatility but different total returns.

Residential properties in Finland also show a relatively high total return, mainly driven by expected rental increases.



However, this segment shows a wider sub-market spread in both volatility and returns. The volatility for residential properties in the Helsinki Metropolitan Area is close to 11% while remaining areas have volatility between 5%–6%. Predicted total returns for the Helsinki Metropolitan Area are expected to be lower than the rest of Finland as well. Taking the sub-market spread into account, investors can choose locations based on risk aversion while still getting exposure to the residential market in Finland.

The Retail Finland segment shows relatively high returns depending on sub-market and historically low volatility. The Helsinki Metropolitan Area shows slightly lower returns than the rest of Finland. As with logistic properties in Finland, retail properties show greater variation in returns than volatility.

The Baltic region shows historically high volatility compared to the rest of the Northern European property market. For the time period 2017–2018 the Baltic segments are expected to show continuously high total returns and volatility.

Investors looking to maximise their risk-adjusted total return during the



forecast period should choose selected logistics properties and residential properties in Finland.

#### Retail and office properties in prime segments in Oslo are expected to show the highest capital growths in 2017–2018

With an expected yearly growth of 6.3%, retail properties in prime segments in Oslo are predicted to show the highest capital growth for the period 2017–2018. The high expected capital growth is primarily driven by expectations of continuous rental growth. Office properties in prime segments in Oslo are also expected to show a high capital growth of approximately 5.2% per year. Factors contributing to this growth are slightly increasing

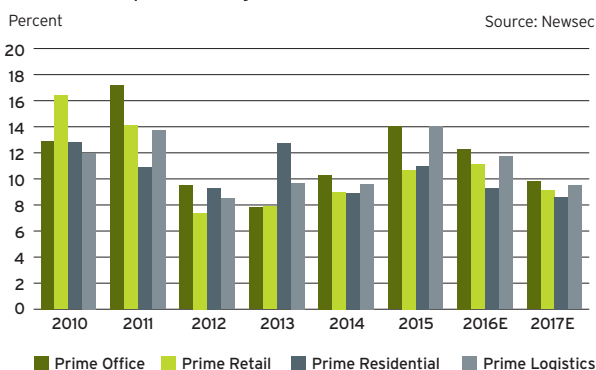
rents and decreasing vacancy rates.

Prime residential segments in Gothenburg, Malmö and Stockholm are expected to show relatively high capital growth rates of between 5.0%–3.7% for the period 2017–2018.

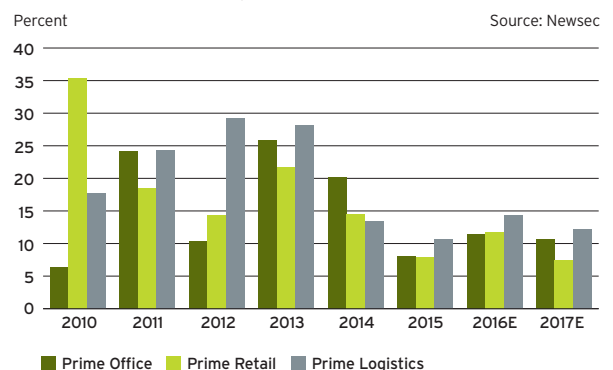
Predictions are most negative for logistics properties in prime segments in Gothenburg. This segment is expected to have a capital growth rate of –1.9% per year. The anticipated decrease is primarily driven by increasing vacancy rates.

Investors chasing maximum capital growth during the forecast period should choose retail properties in central Oslo.

Total Return | Nordic Region



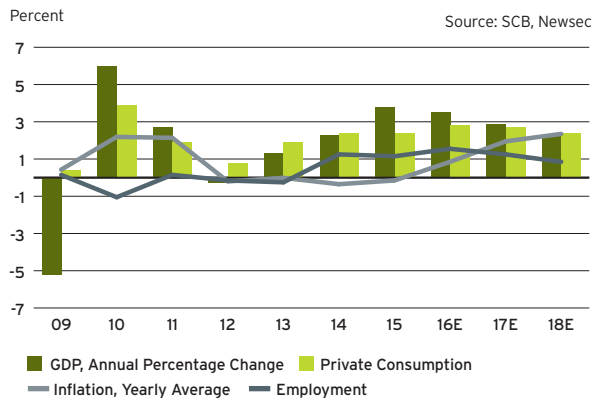
Total Return | Baltic Region



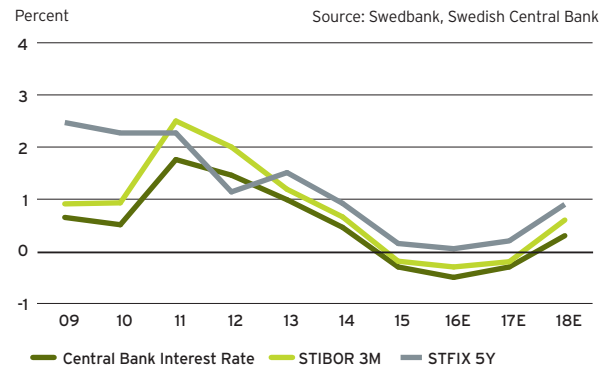
# MACROECONOMIC DATA

## Sweden

### Economic Indicators

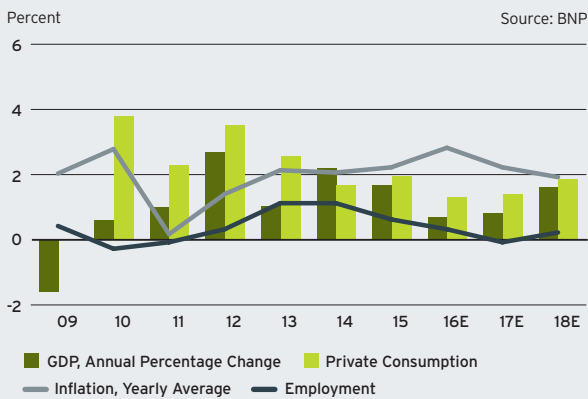


### Interest Rates

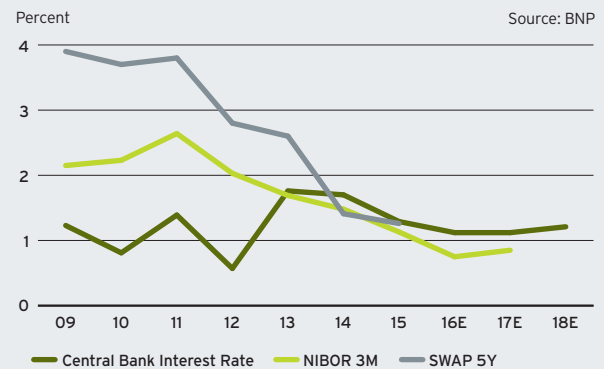


## Norway

### Economic Indicators

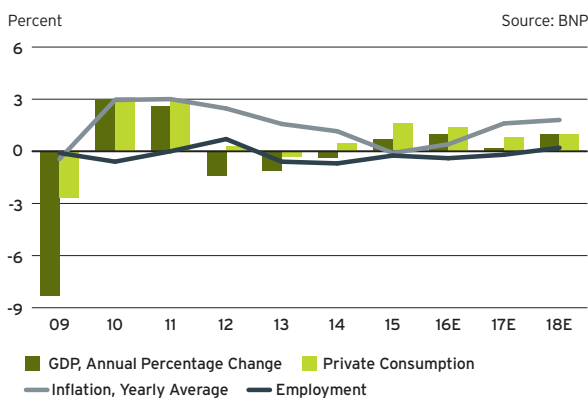


### Interest Rates

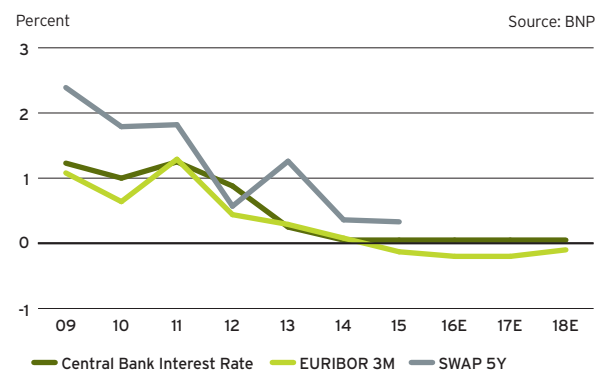


## Finland

### Economic Indicators

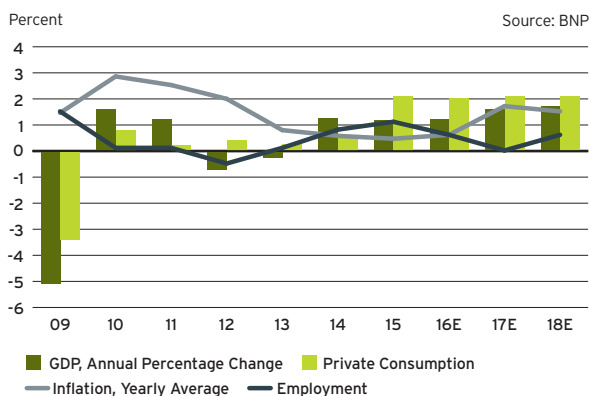


### Interest Rates

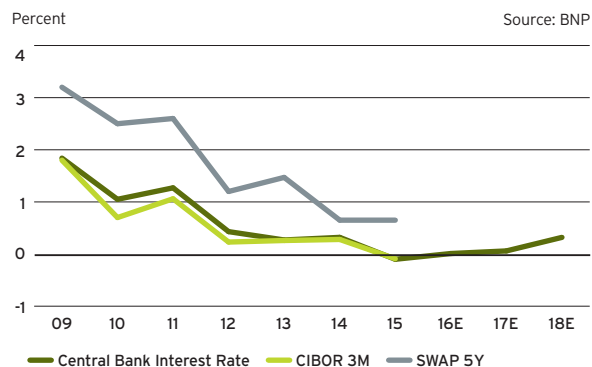


## Denmark

### Economic Indicators

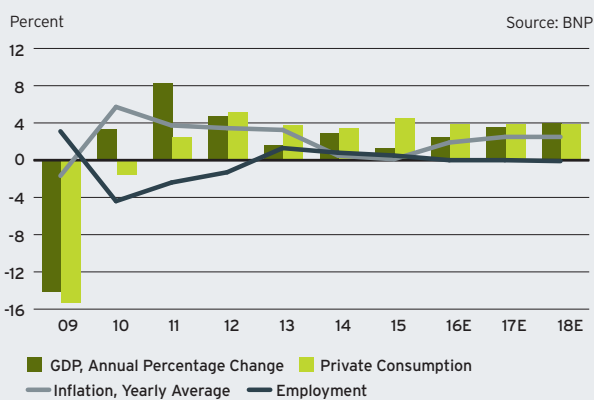


### Interest Rates



## Estonia

### Economic Indicators

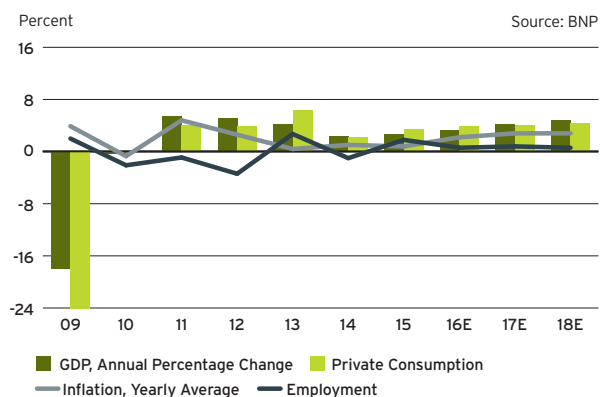


### Interest Rates

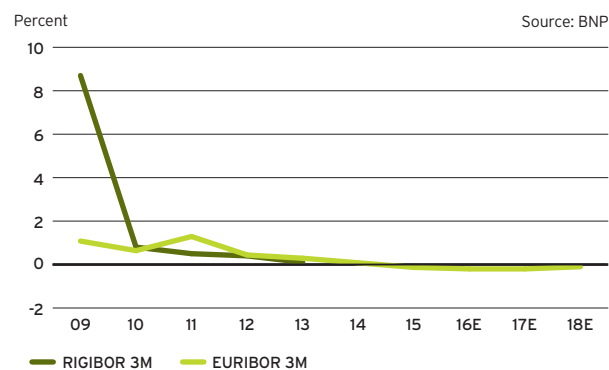


## Latvia

### Economic Indicators



### Interest Rates

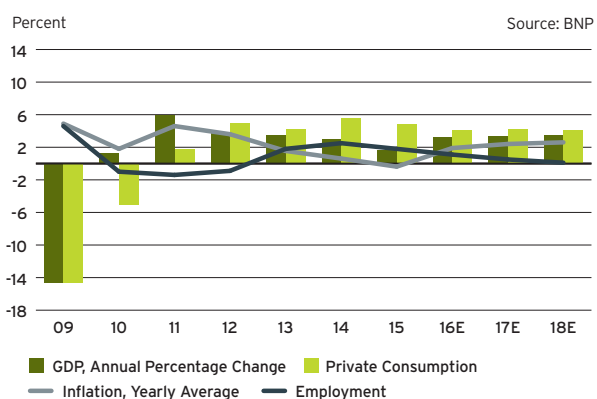




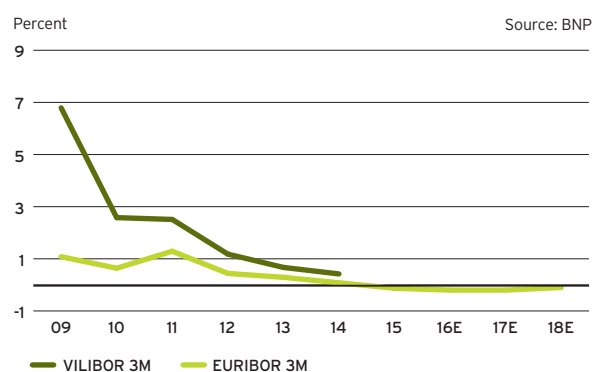
# MACROECONOMIC DATA

## Lithuania

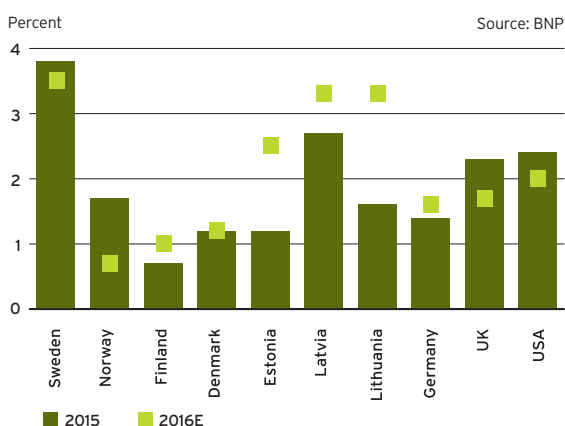
### Economic Indicators



### Interest Rates



### GDP Growth 2015–2016E

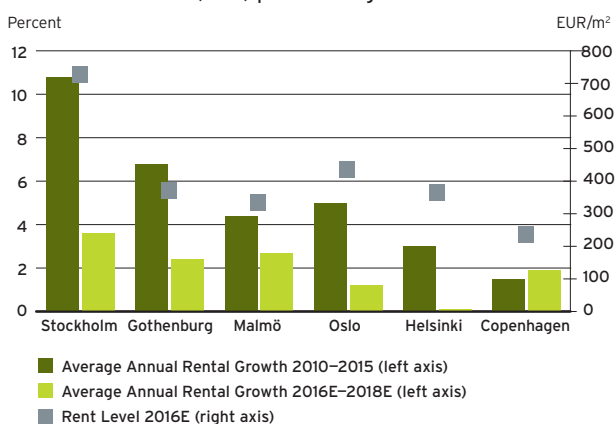


# PROPERTY DATA

## Office rents

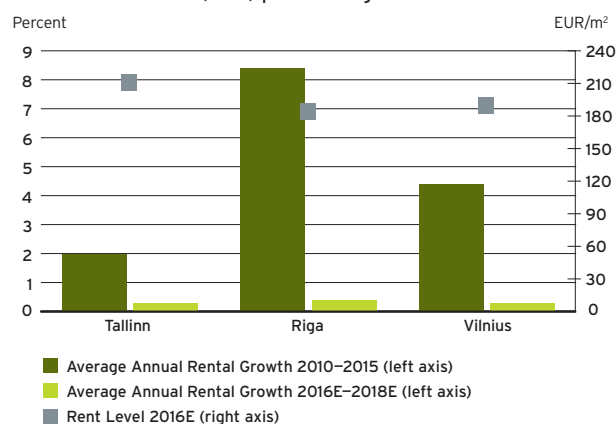
### Prime Office Rents (CBD) | Nordic Region

Source: Newsec



### Prime Office Rents (CBD) | Baltic Region

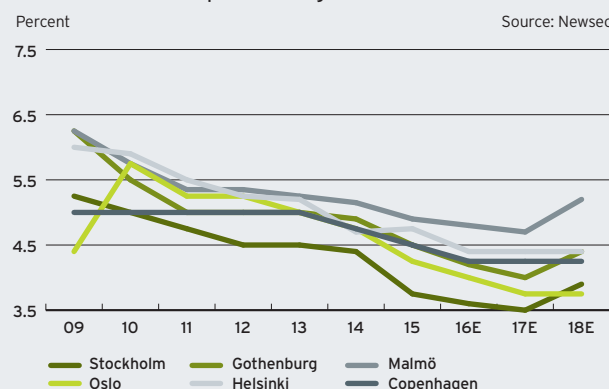
Source: Newsec



## Office yields

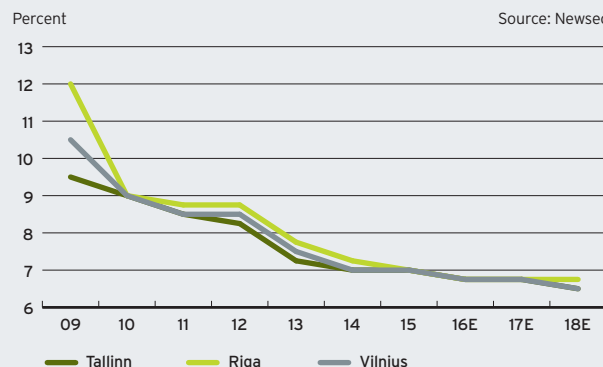
### Prime Office Yields | Nordic Region

Source: Newsec



### Prime Office Yields | Baltic Region

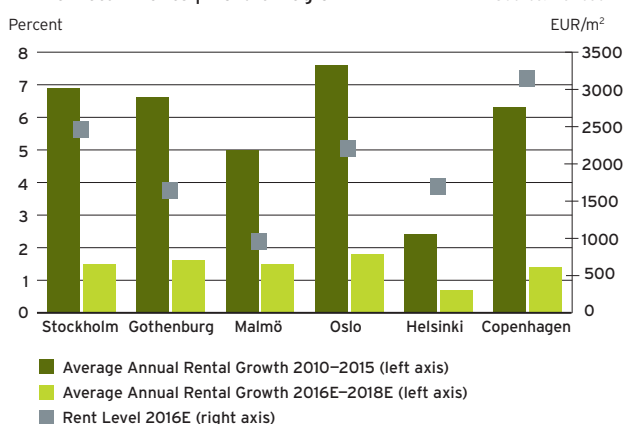
Source: Newsec



## Retail rents

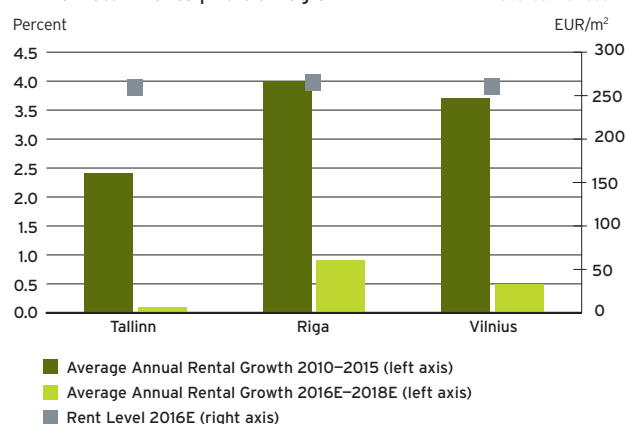
### Prime Retail Rents | Nordic Region

Source: Newsec



### Prime Retail Rents | Baltic Region

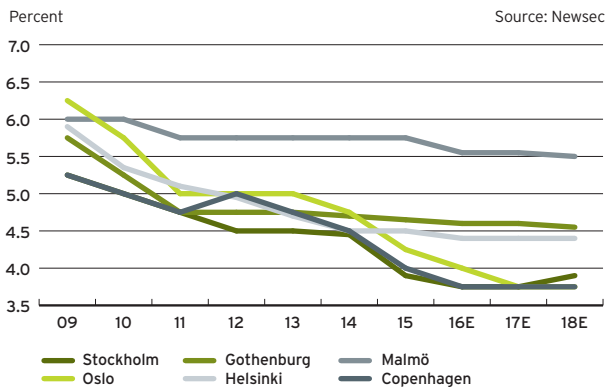
Source: Newsec



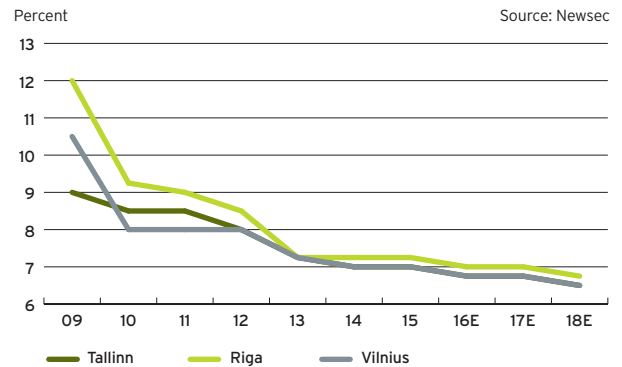
# PROPERTY DATA

## Retail yields

### Prime Retail Yields | Nordic Region

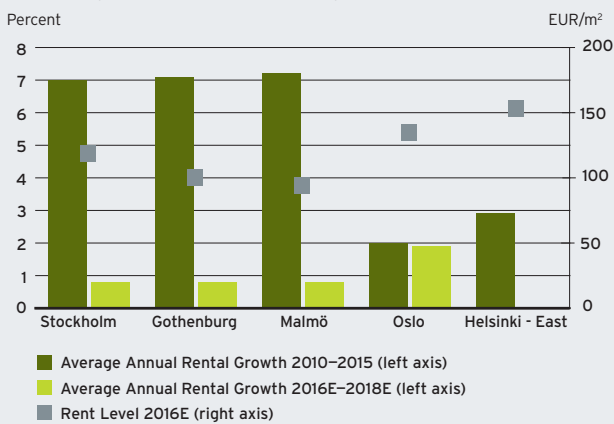


### Prime Retail Yields | Baltic Region

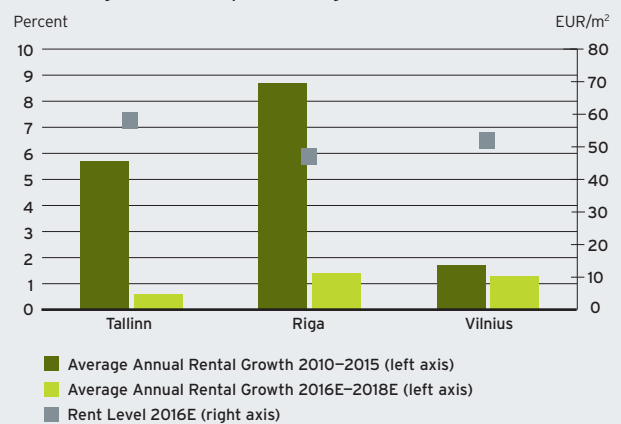


## Logistics rents

### Prime Logistics Rents | Nordic Region

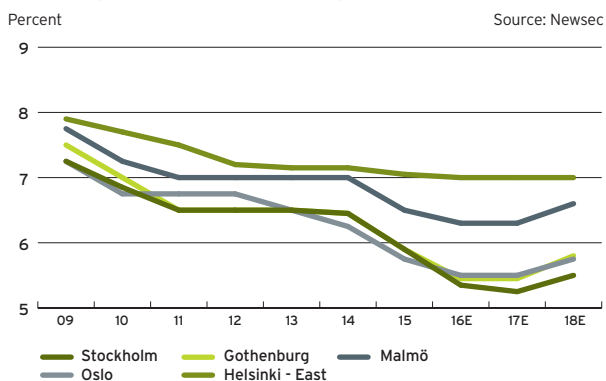


### Prime Logistics Rents | Baltic Region

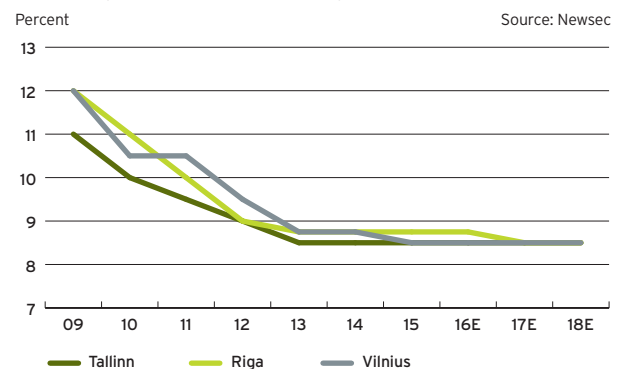


## Logistics yields

### Prime Logistics Yields | Nordic Region



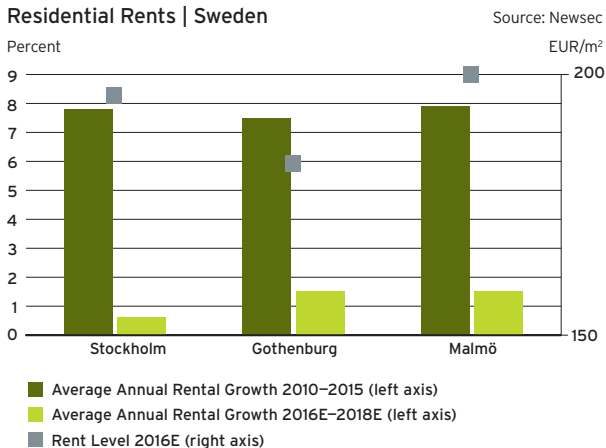
### Prime Logistics Yields | Baltic Region



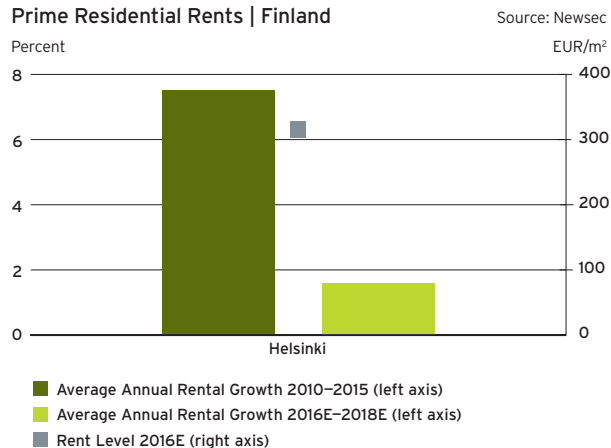


## Residential rents

### Residential Rents | Sweden

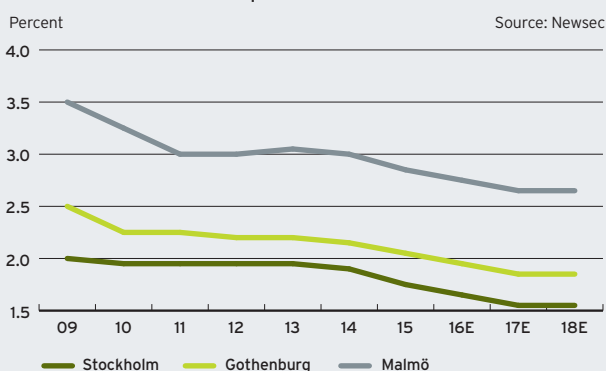


### Prime Residential Rents | Finland



## Residential yields

### Prime Residential Yields | Sweden

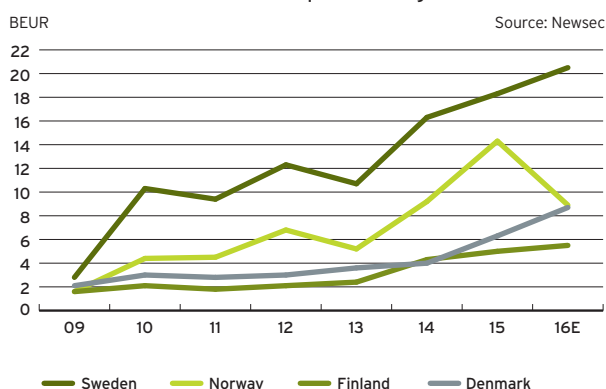


### Prime Residential Yields | Finland

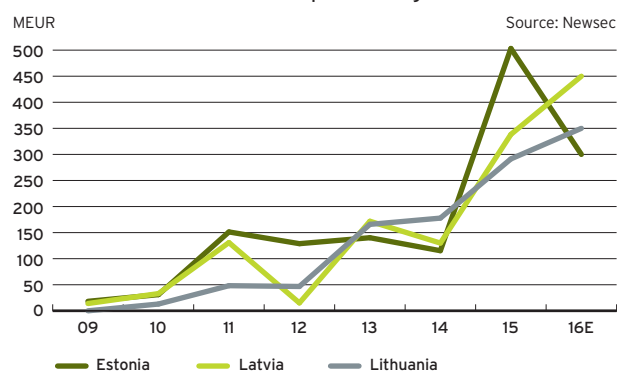


## Annual transaction volumes

### Transaction Volumes – Annual | Nordic Region



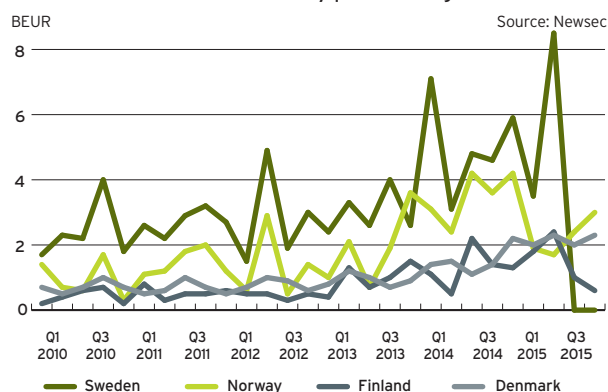
### Transaction Volumes – Annual | Baltic Region



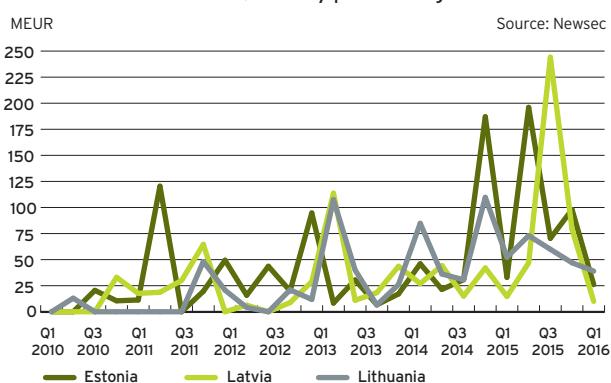
# PROPERTY DATA

## Quarterly transaction volumes

Transaction Volumes – Quarterly | Nordic Region

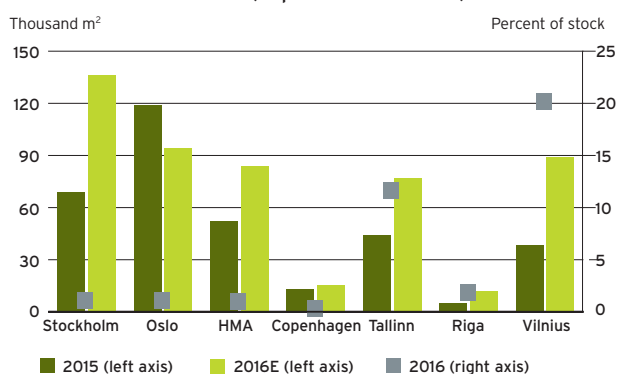


Transaction Volumes – Quarterly | Baltic Region



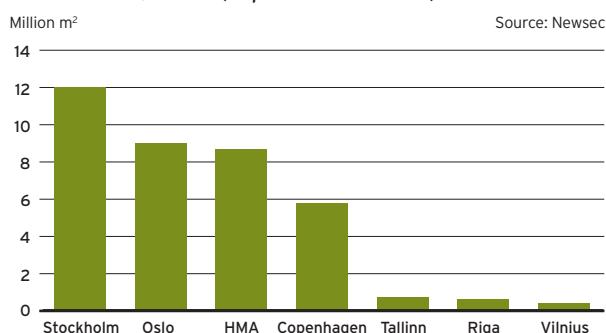
## Office new construction

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

## Exchange rates

All rents and transaction volumes are calculated using exchange rates from August 2016.

# NEWSEC'S ANALYSIS PRODUCTS

Thanks to Newsec's comprehensive knowledge we are able to offer a number of analysis and market reports which give you a valuable summary of the property market.

Order your English report at [www.newsec.com/insights/market-reports/](http://www.newsec.com/insights/market-reports/)

Order your Swedish report at [www.newsec.se/insikter--rapporter/marknadsrapporter/](http://www.newsec.se/insikter--rapporter/marknadsrapporter/)



# THE FULL SERVICE PROPERTY HOUSE IN NORTHERN EUROPE

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

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

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

## A history of growth

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

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

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

Today, Newsec employs over 700 professionals in over 20 offices and covers all parts of the commercial property market. Newsec provides services to most of the leading property owners, investors and corporates in the region.



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