NEWSEC

NEWSEC
PROPERTY OUTLOOK
SPRING 2015

CONTENTS

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EXECUTIVE SUMMARY

Since last November, share prices for property companies listed on the Swedish stock market have soared and the companies' valuations have now reached an all-time high. The decision by the Swedish Riksbank to lower the Swedish central bank interest rate to -0.10% at the beginning of February is a measure that will go down in history and will lead to a continuing prosperous market environment for property companies throughout the Nordic and Baltic region. In this very favourable financing climate, property companies in northern Europe are likely to go on developing well.

The yield contraction that we have seen in the market has made development projects a more attractive investment option than before. Investors and property owners are increasingly seeking return from investments in new construction and redevelopment as a supplement to the acquisition of properties. In general, the timing is now optimal for property owners and investors to initiate restructuring of their property portfolios in order to be in line with core investment strategies and to secure future growth.

EXTERNAL FACTORS AFFECTING THE ECONOMIES IN NORTHERN EUROPE

The business cycle in the euro area weakened towards the end of 2014 primarily because of the collapse of prices on the global oil market and the escalating crisis in Russia. However, growth in the area is expected to pick up thanks to the aggressive expansion of the ECB's assets-purchase programme. The performance of the economies in northern Europe remains weak except in Sweden where the outlook for the next few years is good. The Swedish economy is expected to really pick up in 2016 with GDP growth reaching almost 3.0% then and averaging 2.3% for the period 2014-2016. The positive outlook for the Swedish economy in an international perspective will keep the total return on property high for the next few years. However, recent post-election politics have been dominated by confrontation, which has led to uncertainty about fiscal policy and may hurt the Swedish economy going forward.

Norway, where the outlook for the economy was positive until recently, has been severely affected by the sharp decline in oil prices. Its GDP is only expected to grow by an annual rate of around 1.0% during coming months. Both the Danish and Finnish economies are still showing poor performance, with Finland's GDP decreasing by 0.3% during last year and Denmark showing positive growth for the first time since 2011. The political and economic crisis in Russia is affecting the Baltics, resulting in sharply weaker exports and lower investments.

HIGH MARKET ACTIVITY AND FALLING YIELDS THROUGHOUT ALL MARKETS

Competition for attractive objects remains high on all northern European markets, and transaction volumes increased significantly in 2014 on all markets except the Baltics.

The Finnish property market saw a high transaction volume in 2014 with an increase of 70.0% over 2013. The total transaction volume ended at EUR 4.26 billion, with almost 35.0% of capital coming from international investors. However, the increased international demand and low yield levels did not reach all property segments. For instance, the demand for office property is still directed primarily towards the Helsinki Metropolitan Area (HMA).

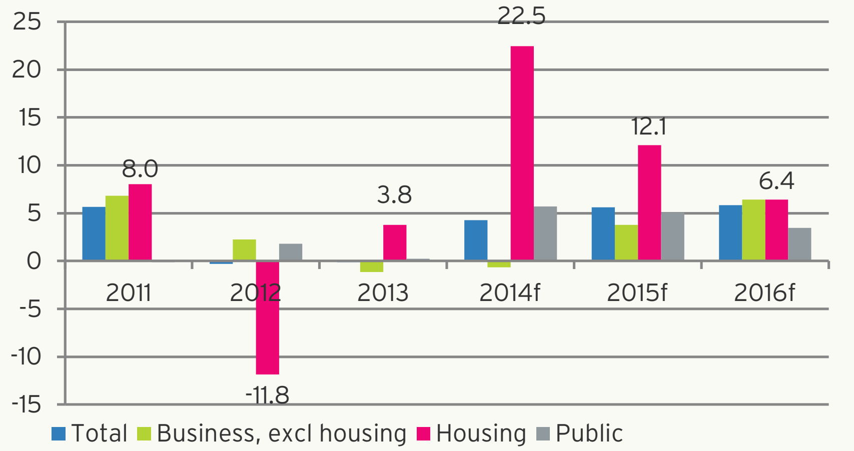
In Sweden market activity was high throughout 2014, which resulted in a transaction volume that approached previous record years and represented an increase of more than 60.0% over 2013. With the Swedish central bank interest rate now at a historically low negative value, the low-interest-rate scenario is guaranteed to continue in 2015. Together with good yield opportunities compared to alternative investments, this will lead to continued high transaction volumes and we predict a new record year for the Swedish transaction market in 2015.

The Danish market also saw an increase in 2014. The total transaction volume ended at DKK 30 billion, which was an increase of 15.0% on the previous year. The supply of prime properties is limited and although a number of new investors entered the market during 2014, the increased demand is not reflected in the transaction volume. Activity will spread to secondary markets in 2015.

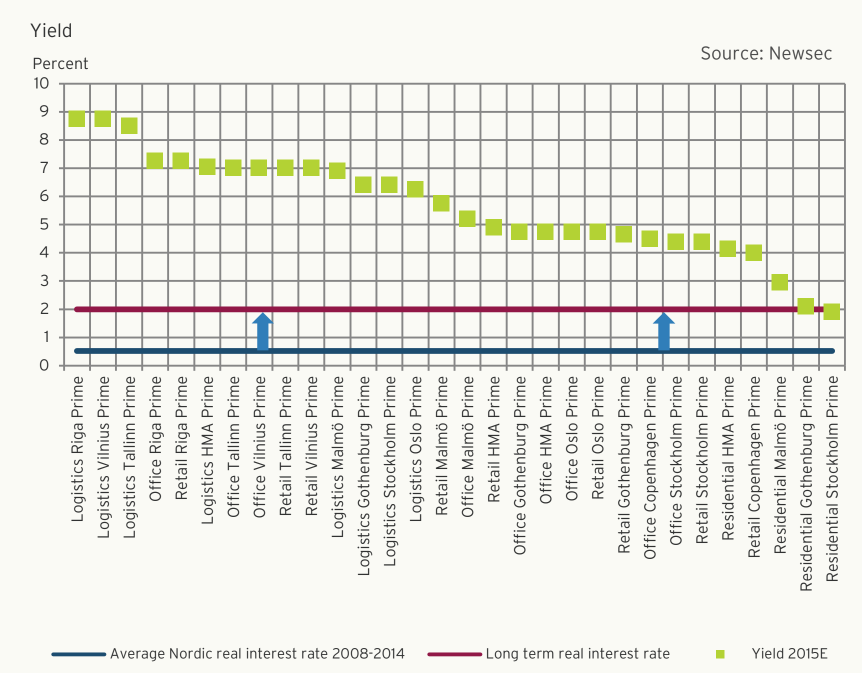
Norway saw an extremely good year. Never before has such a high transaction volume been reached, and property values have grown significantly. The total transaction volume for 2014 ended at NOK 77 billion, against a previous record of NOK 68 billion set in 2006. Furthermore, the peak of property values has probably not yet been seen. Yields will be squeezed further and values will continue increasing in 2015.

Nordic, Baltic and Russian investors are still the key players in the Baltic market due to the high return on investment; investments are still focused on the capital cities. Transaction volume in the Baltic market in 2014 totalled EUR 415 million, which was lower than in 2013 due to the geopolitical uncertainty and a weakened global economy. However the yield gap to Western European markets remains interesting; investors seeking additional return will find properties yielding around 7.0% in the prime segment.

Sweden: Investment in different sectors, %



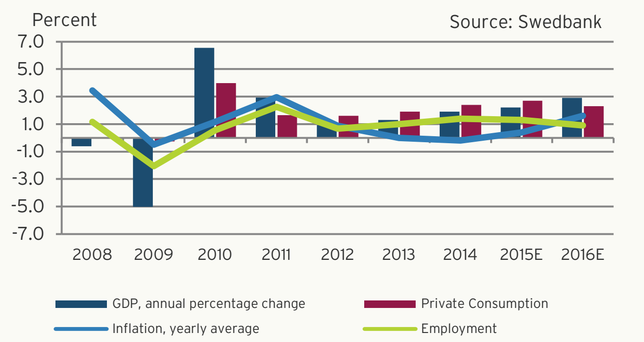
Source: Statistics Sweden



MACROECONOMIC DATA

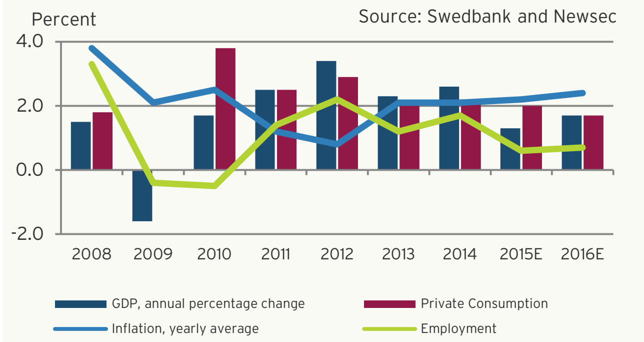
SWEDEN

Economic Indicators

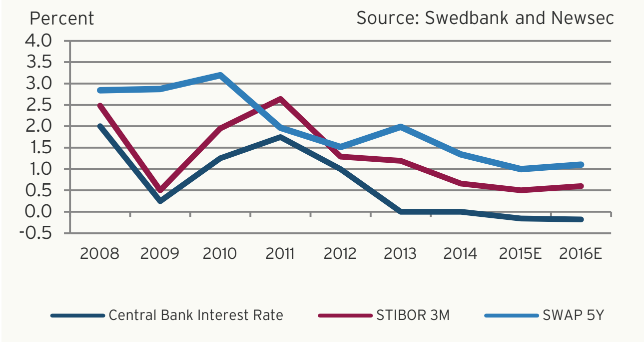


NORWAY

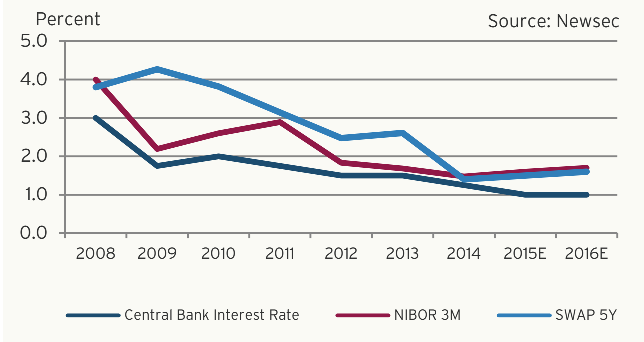
Economic Indicators



Interest rates

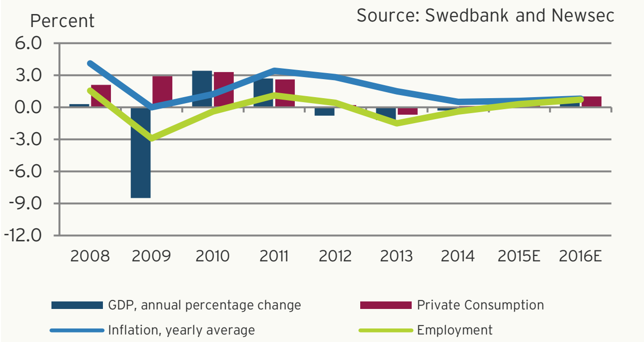


Interest rates



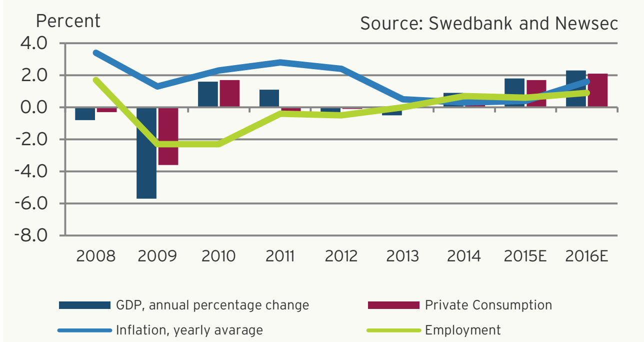
FINLAND

Economic Indicators



DENMARK

Economic Indicators



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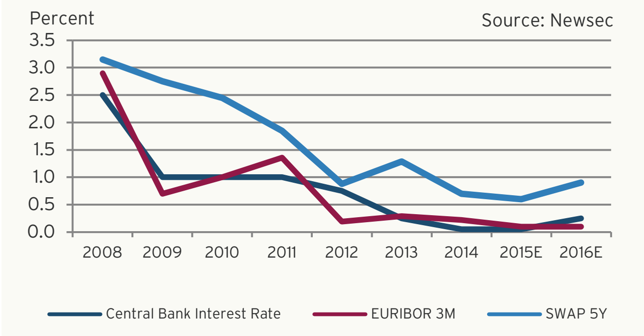

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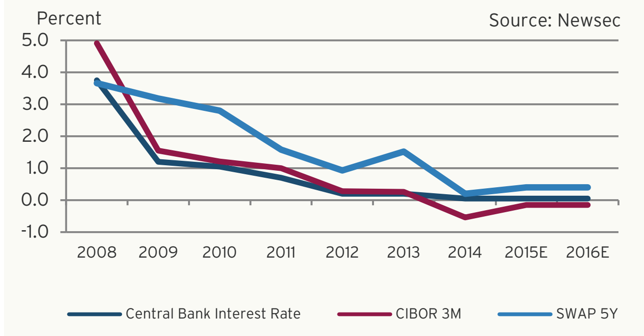
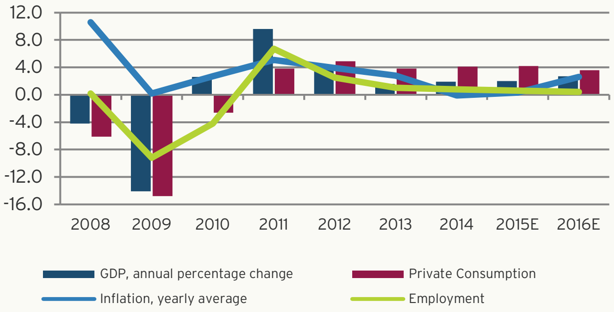


ESTONIA

Economic Indicators

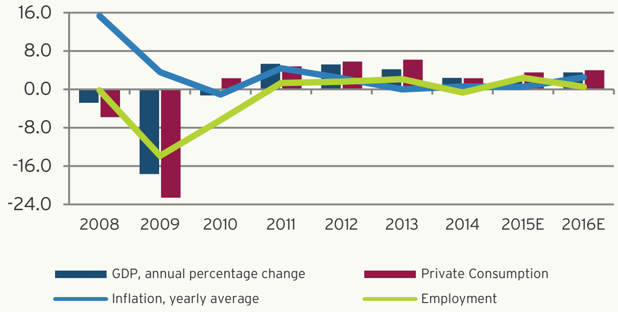
Percent Source: Swedbank and Newsec



LATVIA

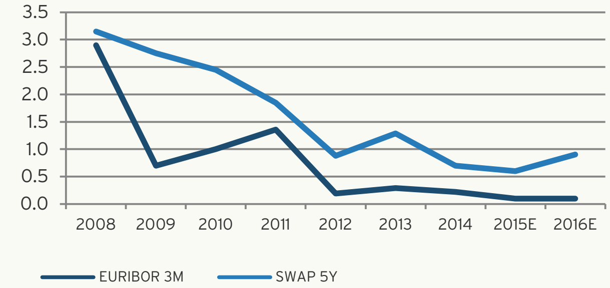
Economic Indicators

Percent Source: Swedbank and Newsec



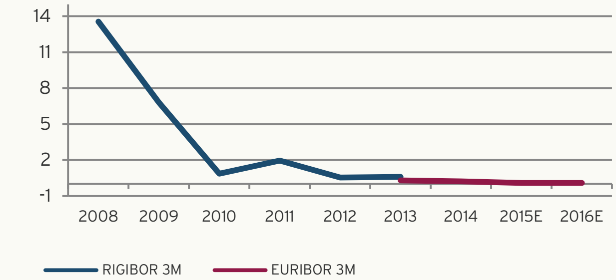
Interest rates

Percent Source: Newsec



Interest rates

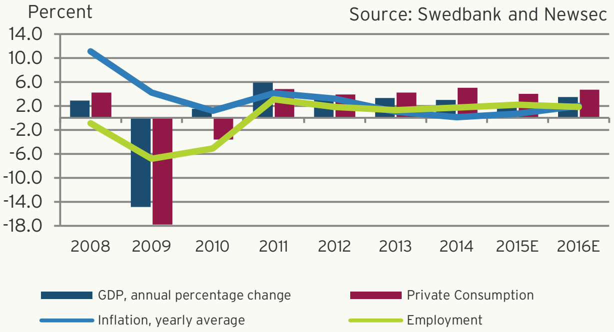
Percent Source: Newsec



LITHUANIA

Economic Indicators

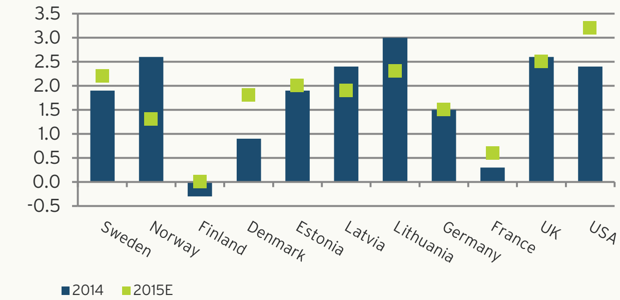
Percent Source: Swedbank and Newsec



SELECTED COUNTRIES

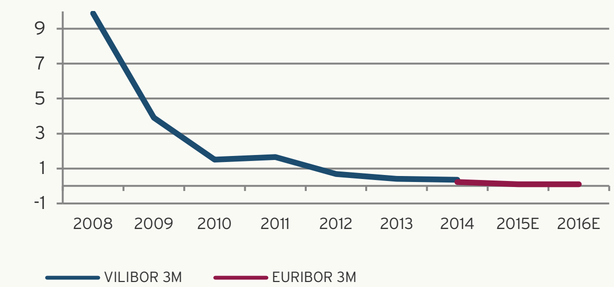
GDP growth 2014-2015

Percent Source: Swedbank and IMF



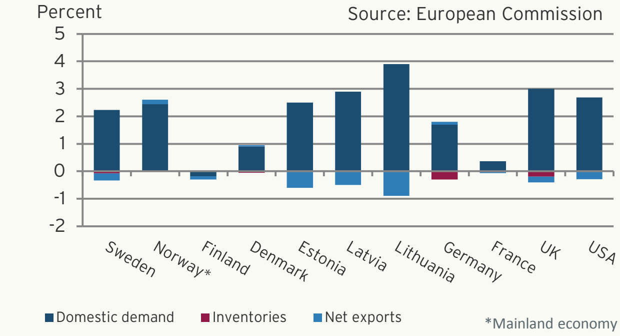
Interest rates

Percent Source: Newsec



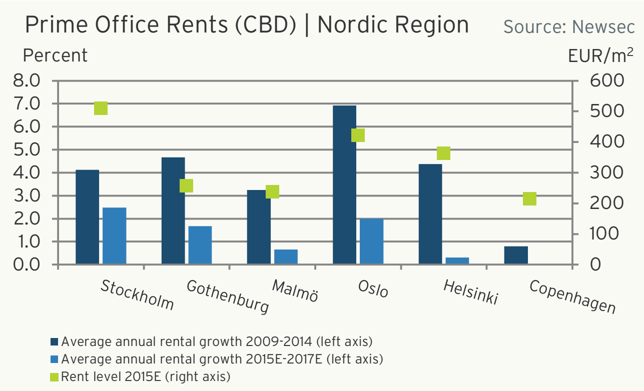
Contribution to GDP growth 2015E

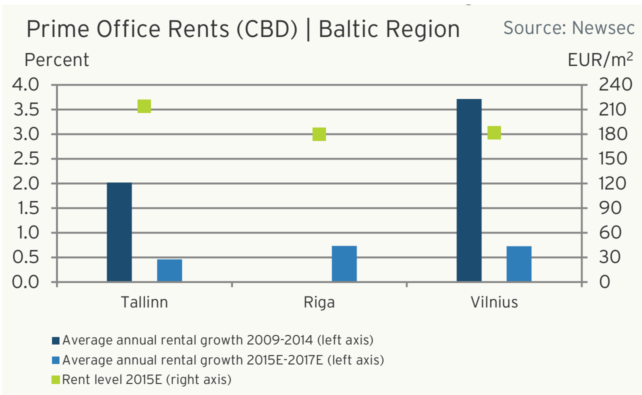
Percent Source: European Commission



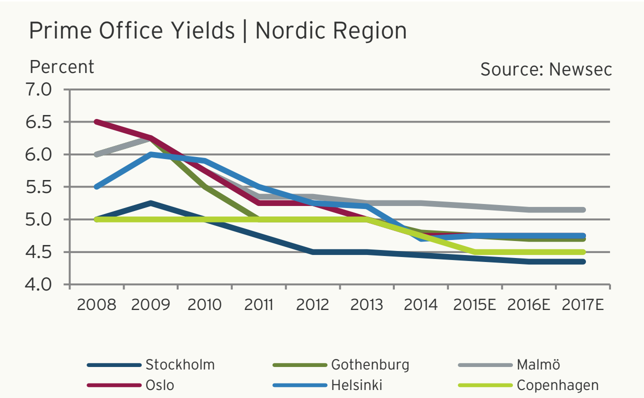
PROPERTY DATA

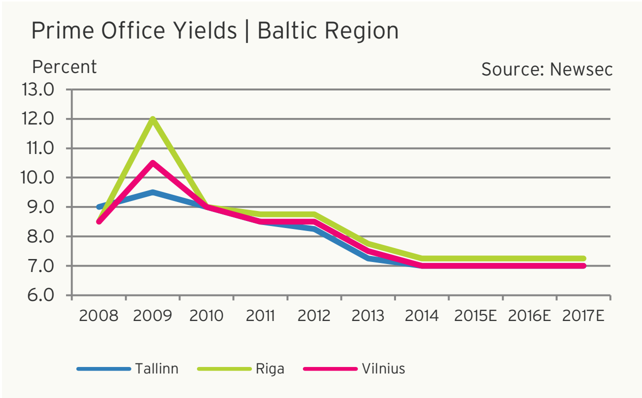
OFFICE RENTS



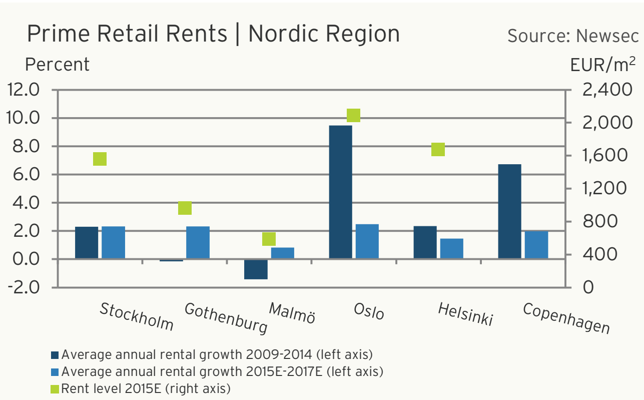


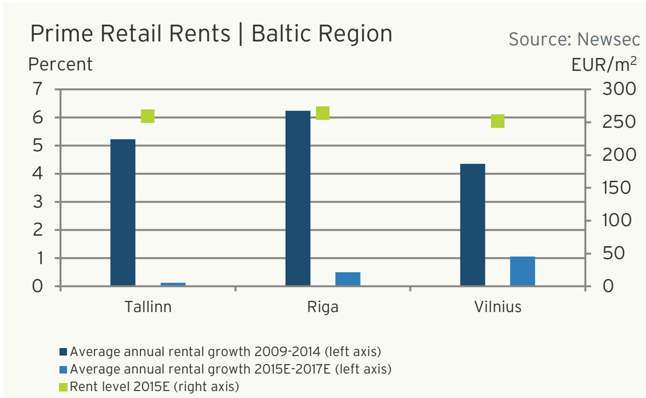
OFFICE YIELDS



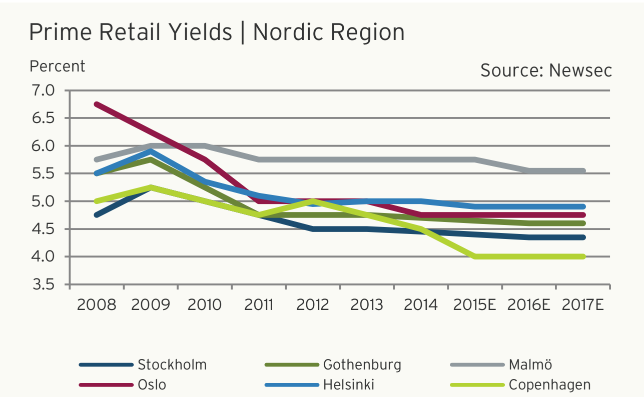


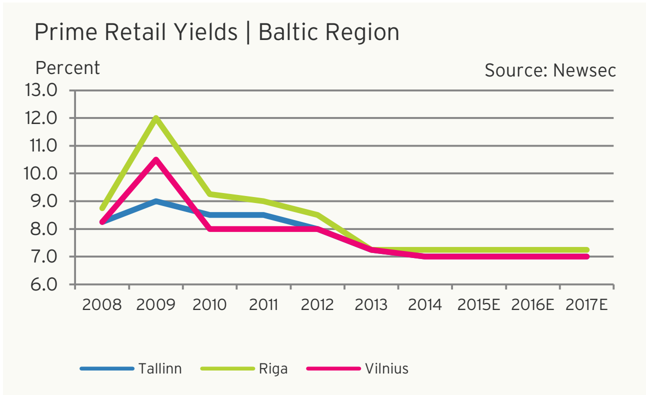
RETAIL RENTS





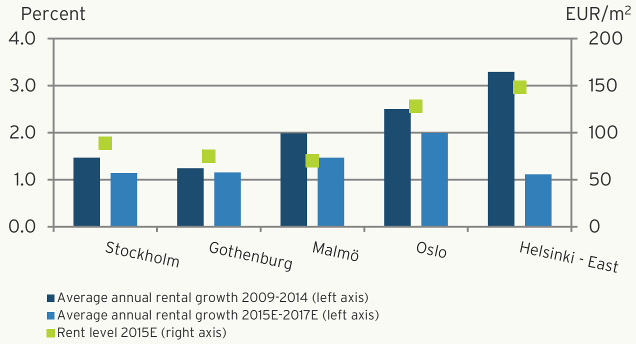
RETAIL YIELDS



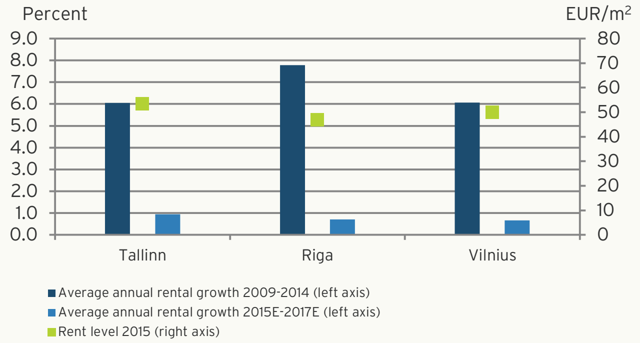


LOGISTICS RENTS

Prime Logistics Rents | Nordic Region

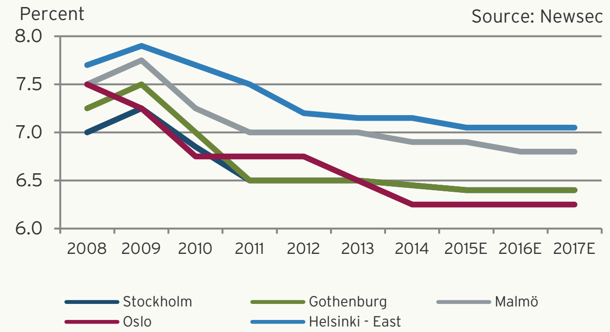


Prime Logistics Rents | Baltic Region

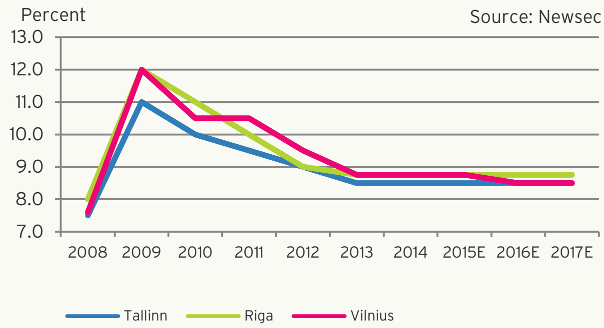


LOGISTICS YIELDS

Prime Logistics Yields | Nordic Region

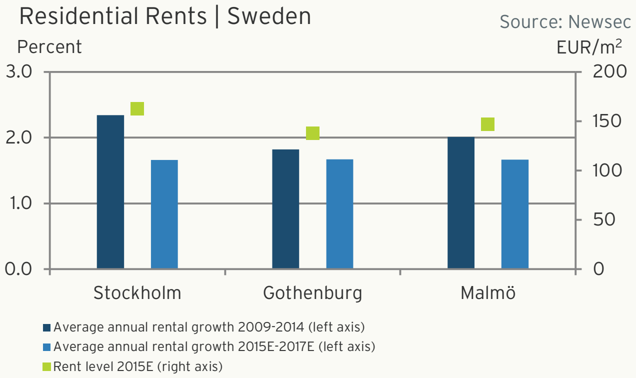


Prime Logistics Yields | Baltic Region

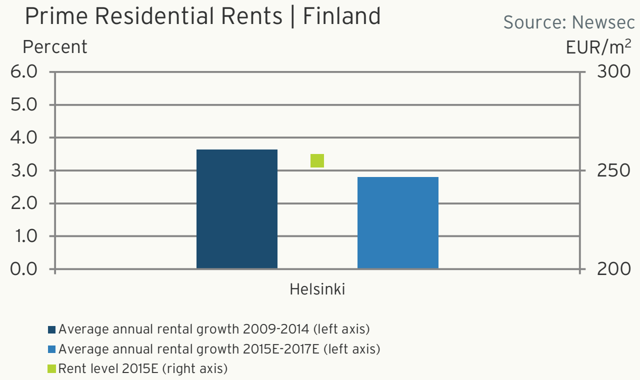


RESIDENTIAL RENTS

Residential Rents | Sweden

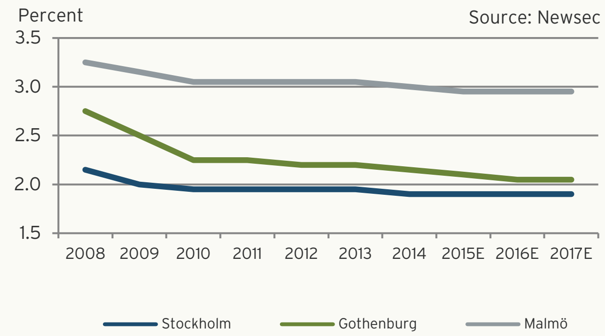


Prime Residential Rents | Finland

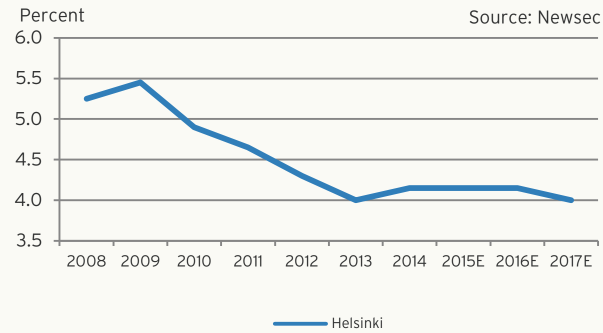


RESIDENTIAL YIELDS

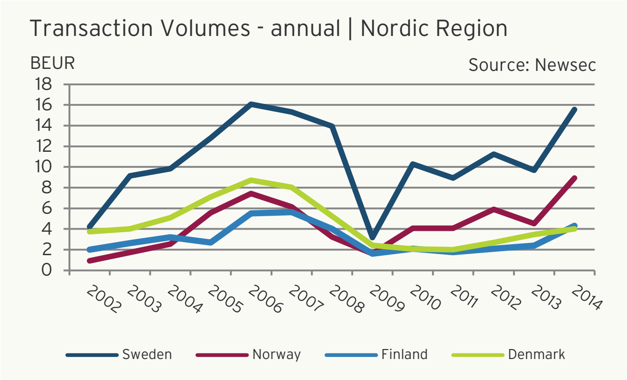
Prime Residential Yields | Sweden

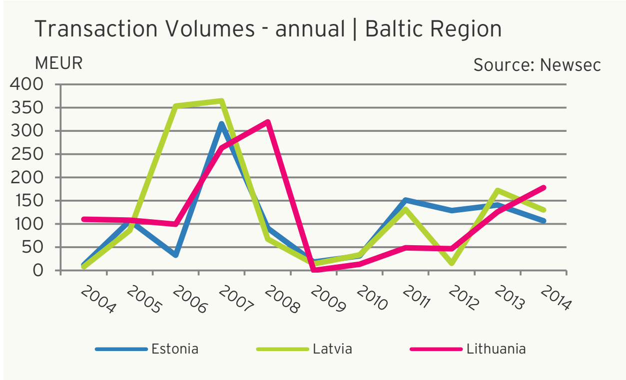


Prime Residential Yields | Finland

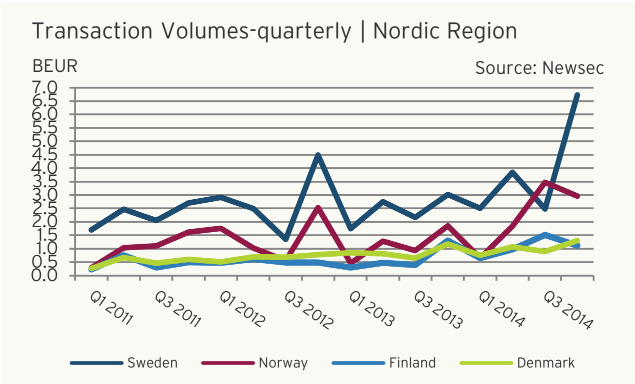


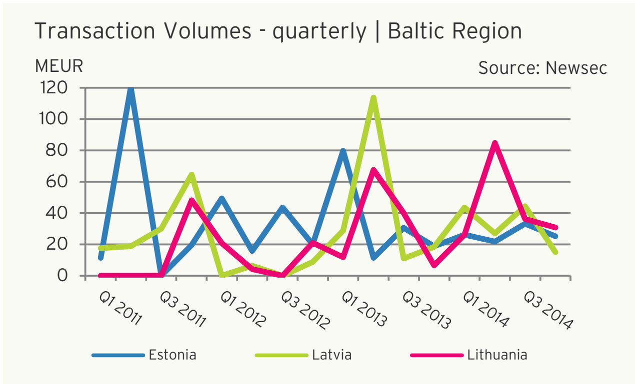
ANNUAL TRANSACTION VOLUMES



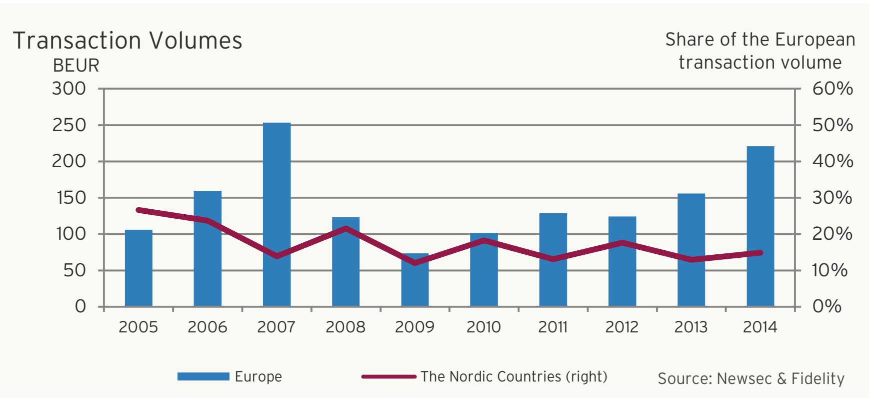


QUARTERLY TRANSACTION VOLUMES





EUROPEAN TRANSACTION VOLUME



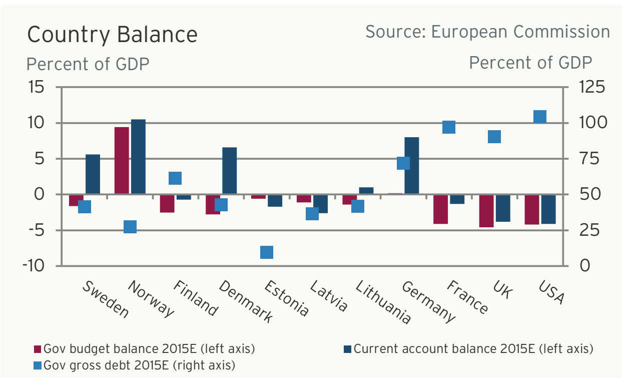
GLOBAL OUTLOOK

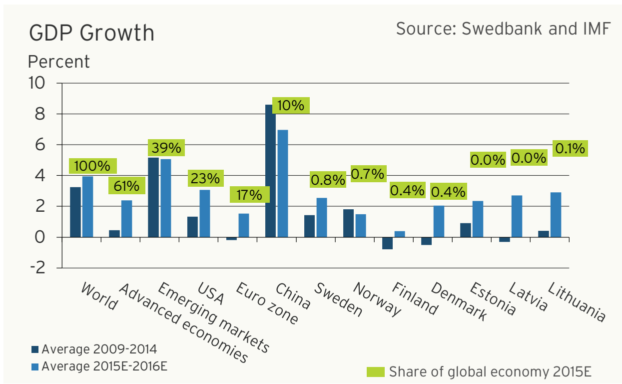
SLOW RECOVERY UNDER WAY

We expect global growth to recover in 2015 and 2016, after momentum surprisingly slowed towards the end of 2014. It was mainly the business cycle in the euro area that weakened, but short-term indicators are pointing at a pickup in growth that should be boosted by the aggressive expansion of the ECB's assets purchase programme. Similarly, the US business cycle has clearly picked up on the back of strong developments in the labour market, and global growth will benefit from expansion in the developed economies. The outlook for emerging markets is more mixed. India, along with other energy-dependent economies, will benefit from lower oil prices, while commodity exporters such as Brazil and Russia will suffer. We expect growth in China to slowly be guided down by cautious authorities, but not without risks. Overall, we forecast a slow recovery of the global economy over the next two years.

EURO AREA – SLOWLY REGAINING SPEED

After growth came back to the euro area in 2013, the scene was set for a continued upswing: private sector consolidation had come far in most countries, and many imbalances, including current accounts, had been corrected. The hardest part of fiscal tightening was also in the rear-view mirror. Unemployment was high but was heading downwards. The credit contraction was slowing, as the banking sector was much improved. Nevertheless, growth surprised on the downside last year, and surveys did not offer much consolation. In particular, the downturn in German production growth has been significant and hard to explain, given that record-high exports and low imports point to weaknesses in domestic, not foreign, demand; this in a situation where unemployment has fallen farther to a record-low level, employment continues to increase, and the number of vacancies is high. Sure, geopolitical uncertainty following the conflict in Ukraine may explain cautiousness, especially regarding business investments, but such conflicts are not usually important drivers for the business cycle, at least not if they are "far away".





Source: Swedbank Economic Outlook January 2015

"The euro area is slowly regaining speed"

Even now, the data continue to point in different directions: household demand is not that weak in the EMU, at least not in the third quarter according to detailed national accounts and not through November either, as evidenced by retail sales. Consumer confidence rebounded in January, and the level is well above average, suggesting consumption growth at 1.5%. Private credit is now slowly increasing, and banks are reporting a greater willingness to lend as they have strengthened their balance sheets further and passed last year's stress tests. Business investments continue to be weak, however, and remain far below pre-crisis growth paths. Seemingly, European businesses have yet to believe in a meaningful economic up-swing, and, consequently, it is taking longer to materialise. We continue to believe that the economies in the euro area are improving, and that the recent setback is not the start of a new recession.

We have revised our 2015 forecast down, even if several elements in our main scenario have strengthened, like more quantitative easing, a weaker euro, and much lower oil prices. The main reason is that the euro area economy was weaker in the second half of last year and entered 2015 at a slower speed than we assumed last autumn. Nevertheless, the risk for the European outlook is probably skewed to the upside.

BALTICS – LARGELY AFFECTED BY DEVELOPMENT IN RUSSIA

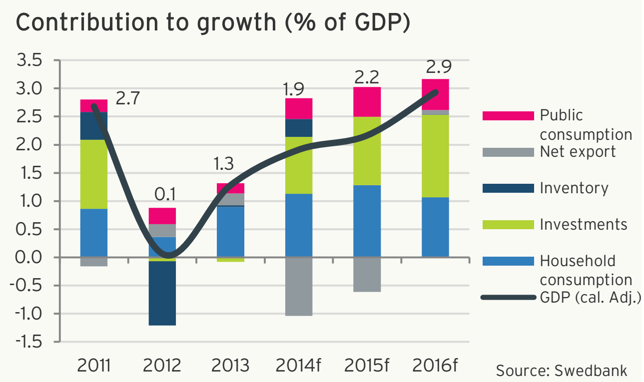
We are revising down the growth outlook for the Baltic economies, mainly due to a deteriorating external environment. The escalating crisis in Russia, both economic and political, is mainly responsible for the sharply weaker exports. Also, business sentiments have been affected, leading to lower investments. However, we expect the Baltics to weather this downturn significantly better than during the global crisis of 2009, since other trading partners keep growing. Domestic balances have been restored, and external conditions in the euro area are improving. With Lithuania joining the European Monetary Union on January 1, all three countries share the same currency and also benefit from the recent stimulus policies of the ECB. Domestic demand is expected to remain solid, on the back of improving labour markets, lower energy prices, and real wage improvements.

Estonia – Uncertainty hasn't forsaken it

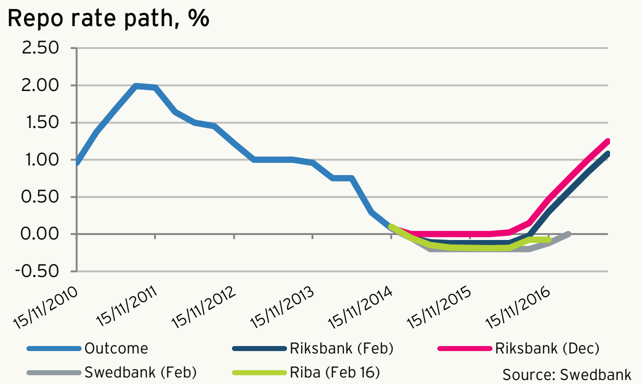
The economic growth forecast in 2015 was revised down, primarily due to a weaker external economic environment and its negative impact on exports and business-sector investments. At the same time, private consumption, supported by a robust growth of wages and super-low inflation, will contribute strongly. Economic growth will accelerate in Estonia in 2016 as the economic environment in the region improves.

Latvia – In search of exports

We are lowering the growth forecast for 2015 to 1.9% (2.6% before) owing to weaker external demand growth and, particularly, a massive Russian rouble depreciation. Continued wage growth and cheaper energy will support the purchasing power of Latvian house-



Source: Swedbank Economic Outlook January 2015



"Nordics - mixed impact from global events "

holds. GDP growth will remain mostly consumption-driven this year, but exports and investments will pick up in 2016, as the global economy speeds up and the situation in Russia stabilises.

Lithuania - Enduring love, wrong partner

Despite the political tensions, economic sanctions, embargo, and falling rouble, Lithuania's exports to Russia continued increasing in 2014. With Russia facing a recession this year almost as big as in 2009, this enduring love of Lithuanian exporters is going to sting. Exports to Russia will probably shrink by more than 10.0%, and business investments will be negatively affected. The good news is that the same force that crippled Russia – cheap oil – will also boost Lithuanian consumers.

NORDICS – MIXED IMPACT FROM GLOBAL EVENTS

Norway – Prospects slump with oil price

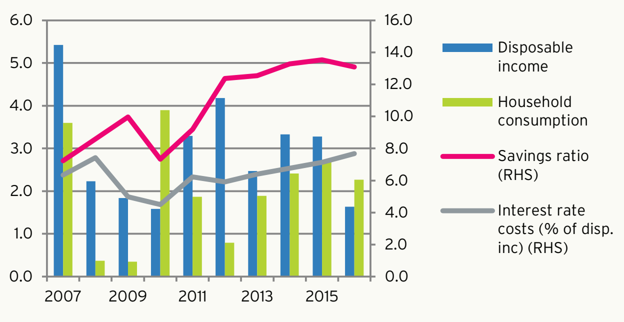
Prospects for the Norwegian economy deteriorated significantly through the end of last year. Businesses in Norges Bank's regional network have reported significantly lower expectations, currently projecting a growth rate of only 1.3% in the months ahead. Other business surveys have confirmed this development. The main weakness lies in the oil-related sectors. Statistics Norway's survey suggested a significant fall in oil investments already before the oil price started to fall. Lower prices put increasing pressure on profitability, suggesting significant downside risks not only to investment plans but also to margins and cash flows of oil companies and their suppliers. Oil-related industrial production, which has boomed in recent years, is now set to fall. New orders are deteriorating rapidly, and reports of layoffs are recurring in the news. On the basis of these weakening prospects, Norges Bank decided to cut the policy rate by 25 basis points to 1.25% in December. Domestic demand has been weak for quite some time, and weaker than Norges Bank had predicted.

Growth in household demand has been muted for almost two years, and developments in retail sales remained modest through November. Demand for labour is also very weak, as evidenced by the few new vacancies and falling employment surveys, and suggests weak employment growth ahead. It is becoming increasingly clear that wage growth has come down as well, further slowing growth in total income. In the year ahead, we expect domestic demand to remain weak and unemployment to rise, in particular as layoffs in oil-related sectors and their repercussions take hold. Wage inflation is slowing, and real wages are also being hit by higher inflation.

Denmark – Growth to pick up, aided by lower oil prices

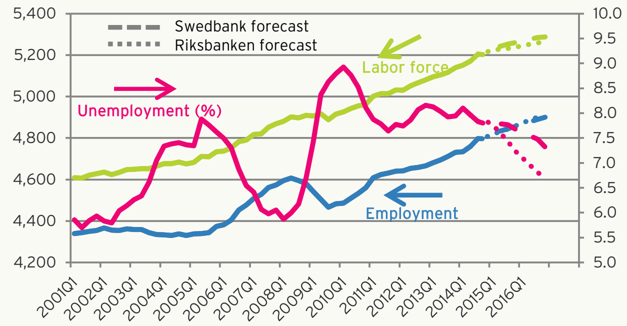
For the first time since 2011, Denmark is estimated to have reached positive growth last year, with the last five quarters showing an expansion. We estimate real economic growth at 0.9%, and the recovery is broad-based. This has come after a long period of low growth due to fiscal consolidation, the rebalancing of the housing market, consolidation of the financial sector, and a structural decline of the oil extraction sector. Al-

Sweden: Household income and consumption



Sources: Statistics Sweden and Swedbank

Sweden: Employment, labour force and unemployment



Sources: Statistics Sweden and Swedbank

Source: Swedbank Economic Outlook January 2015

“Monetary policy is set to become more expansionary”

though not without risks, the Danish economy now looks set to extend the positive development for the next two years.

Economic policy in Denmark has been guided, on the one side, by adherence to the 3.0% budget deficit limit as defined in the Maastricht agreement, and, on the other, by the currency peg to the euro. The negative impact on growth from fiscal consolidation is now largely over, and, with elections coming up this year, there is likely to be some relaxation in fiscal discipline. Monetary policy is set to become more expansionary as the ECB continues to grow its balance sheet and the Swiss National Bank abandoned its peg to the euro. Denmark's National Bank moved its deposit rate farther into negative territory to deter capital inflows and a strengthening of the krone. Still, further pressure on the Danish krone cannot be ruled out, and is still going on.

Finland – Recovery still fragile

The Finnish economy has now fallen off for three years in a row. GDP decreased by 0.3% last year, as consumption and investments, as well as exports, failed to produce positive results. The biggest drag came from the steep decline in private investments due to insufficient demand, both domestic and foreign, uncertainty, and a weak confidence. At the same time, employment is falling, unemployment has increased, and wage growth is very moderate, all therefore having a negative impact on private consumption. Weakening domestic demand has depressed demand for imports and thereby increased net exports. There are some positive signs in the Finnish economy, as the decline in Finland's industrial output has gradually slowed and the increase in services' turnover accelerated in the course of last year.

The bad news is that the aggregated foreign demand of Finland's main export partners will not improve this year. The substantial weakening of the Russian economy, sanctions on several agricultural and food products and rouble depreciation have had a major negative spill-over effect on Finland. Although the growth of unit labour costs has come down from the highs in 2012, it is still not sufficient to enhance the price competitiveness of Finnish production against many of its export partners. However, as two-thirds of Finland's exports of goods are directed to countries outside the euro area, the depreciation of the euro will give some support to the price competitiveness of its exports. We expect only modest export growth from Finland this year. At the same time, domestic demand continues to decline. Due to the decrease in employment, modest wage growth, and lower savings ratio, households' consumption will not improve this year. Some positive effect comes from the lower fuel prices, which will leave additional money for households, but it is too early to say how much of this will be used for consumption and how much for increasing savings. Low confidence, the wretched outlook for improving domestic and foreign demand, and the historically low level of capacity utilisation are depressing investment decisions. We expect that capital investments will decrease this year.

The tight fiscal policy will not contribute to economic growth this year and will have only a relatively modest impact next year as well. We expect that the Finnish government will manage to keep its budget deficit within the limits of the Maastricht criteria, but that debt will exceed the permitted maximum level this year.

Due to the weak domestic demand, Finland's GDP will continue in its marginal recession in 2015, decreasing by 0.1%. Improving domestic and export demand, including higher net exports, will contribute to economic growth up to 0.8% next year.

Sweden – A small open economy

We are revising down the growth forecast for 2015, while expecting activity to pick up in 2016, reaching almost 3.0%. Swedish policymakers have only a limited influence on Swedish economic development in an external environment that is subject to large fluctuations. Weak export demand is slowing down the entire business sector, in particular investment, while households are benefiting from the falling price of oil. However, this is contributing to increased inflationary pressure, and although we expect further measures from the Riksbank, interest rate movements are largely being controlled by the ECB's increasingly expansive policy. The labour market is also exposed to the external environment, with a grow-

Source: Swedbank Economic Outlook January 2015

"The outlook for the Swedish economy over the next two years is relatively good"

ing labour supply and increased wage competition. However, there is broad agreement among politicians that the fiscal policy, which could have an effect when the key interest rate is zero, should remain tight.

Surprisingly, growth lost its impetus from the middle of last year, both internationally and in Sweden. Export demand was particularly constrained by weaker demand from the eurozone, while the US upturn has not been of equal importance to Swedish companies. Household finances remained strong, although consumption was dampened by a certain caution, as well as reduced energy costs and falling interest rates, which also affected aggregate demand. The labour market continues to be characterised by an increase in supply and inertia in unemployment. There has been a further weakening in inflationary pressure and the Riksbank has largely exhausted the conventional measures. Post-election politics have been dominated by confrontation and this has led to uncertainty about fiscal policy.

The outlook for the Swedish economy over the next two years is relatively good, although not without risks. We have made a slight downward adjustment of growth for 2015. However, the underlying dynamic is positive and with a favourable external environment, growth should edge up to 3.0% in 2016. The role of households is decreasing, while companies are contributing increasingly to activity with higher exports and rising investment. Fiscal policy is becoming tighter, notably through tax increases in the municipalities, while the Riksbank is facing increasing pressure to become even more expansive after the ECB's decision to buy government bonds.

This macroeconomic forecast was written before the Riksbank unexpectedly announced that it was lowering the repo rate to -0.1% and buying government bonds – and clearly signalling that further measures may be rolled out if the inflation outlook worsens. Looking ahead, we expect that the Riksbank will act deliberately unpredictably in response to inflation expectations and the value of the krona. If there are negative surprises in inflation and inflation expectations, we anticipate that the Riksbank will implement further easing through increased purchases of government bonds, pushing the interest rate path and will examine the possibility of lowering the repo even more.

Source: Swedbank Economic Outlook January 2015

SWEDEN
- TIME FOR RESTRUCTURING

The investment market

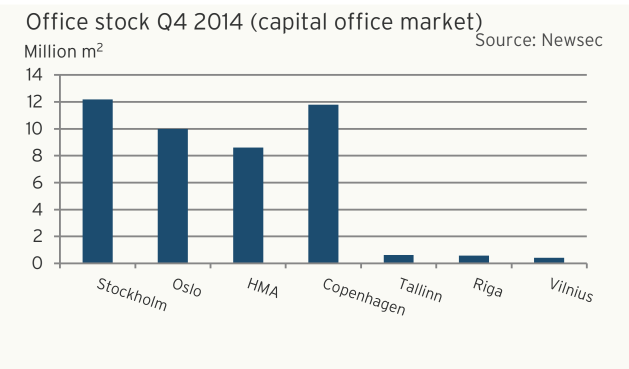
The Swedish transaction market ended 2014 with an extremely strong month in December, with over SEK 31 billion invested in property all over Sweden. The number of transactions carried out was also a record at 52, which led in turn to the strongest quarter ever recorded, with 110 transactions. Activity was high through the whole of 2014, which resulted in a transaction volume that approached previous record years ending at more than SEK 148 billion. This represented an increase of more than 60.0% over the transaction volume for 2013. Factors contributing to the great interest in property are the low interest-rate level, the lack of high-yielding alternatives and good access to financing. The low interest rate environment is expected to continue in 2015, which will sustain the good financing climate. Together with good yield opportunities compared with alternative types of investment, this will lead to continued high transaction volumes in 2015.

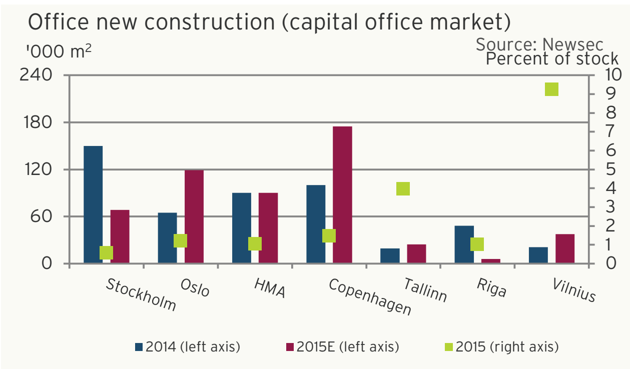
An appraisal of the year shows that private and listed property companies continued to form the largest group of market players in terms of their acquisitions. They accounted together for nearly 60.0% of the year's transaction volume. Private property companies and property funds were the largest sellers. In the latter case only just over half of the sales proceeds were reinvested in properties. Together with the fact that properties have been a good alternative to other types of stockmarket investment, this means that listed property companies are in a good investment position. The private property companies have been active on both the selling and buying side, the explanation being that many have chosen to refine their property portfolio during the past year. Swedish institutions have been net buyers for several years and are in general short of property holdings.

There has been a continuously high interest in properties in Sweden's smaller regional towns and cities throughout the year. Stockholm has dominated geographically, although only two of the ten largest transactions actually took place in the Stockholm area. The year's largest transaction was Starwood's purchase of SveaReal at a price close to SEK 7 billion; this was a mixed portfolio consisting mainly of office and logistics properties predominantly located in Stockholm.

Gothenburg remained strong while Malmö strengthened its share last year, coming from a low level in 2013. There were several large transactions in the Malmö area during the year, including one of SEK 2.8 billion. This transaction concerned Hugo Åberg's complete portfolio, consisting mainly of residential properties.

During the year an increased interest in land sales and public-sector properties became evident, with a large increase in volume compared to 2013. Offices were the dominant investment category followed by the residential segment. There has also been a strong interest in retail and several large retail acquisitions





"Good yield opportunities compared with alternative investments will lead to continued high transaction volumes in 2015"

have been made during the past year. The largest transaction was Klövern's acquisition of Globen City for SEK 3.8 billion, followed by Olav Thon Group's acquisition of five retail centres for SEK 3.25 billion.

The share taken by foreign investors reached its best figure for the year in December, with 30.0%. For the year as a whole, the market proved rather more attractive than in 2013, with a rise from 14.0% to 17.0% of the total volume. Foreign investors accounted for several of the year's largest transactions, including the purchase of SveaReal by Starwood and the purchase of all Henry Ståhl's properties by Heimstaden. The number of foreign investors has been low in recent years, mainly because of low yields and because of several off-market deals in 2014, which made it difficult for foreign investors to enter the market. Low interest rates have also made it easier for Swedish investors to acquire financing, which has led to many high-volume investments. However, the interest from foreign investors is thought to remain.

The office market

Newsec estimates the total office stock in Greater Stockholm at approximately 12.0 million m^2, with the main office areas located in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Uplands Väsby. Stockholm CBD is considered to be the most attractive office area, with a total stock of about 1.9 million m^2, while Stockholm Inner City excluding the CBD has an office stock of about 4.3 million m^2. However, many larger companies are relocating to new office space outside the Inner City. Vacancies created by moves have been, or are being, renovated as new offices or converted to alternative uses. Almost 90,000 m^2 has been undergoing rebuilding during 2014. One well-known project, which followed Swedbank's departure to Sundbyberg, is the pension fund AMF's conversion of Gallerian, which by 2018 will consist of new hotel and office premises and retail stores. Mästerhuset, located in the CBD, will be ready for occupation during 2015 and is fully let. Tenants will include Nordea and the law firm Delphi as well as F12's new 1000 m^2 restaurant and market-hall concept.

During 2014 about 150,000 m^2 of lettable area has been added in Greater Stockholm, 95.0% of which is let. In 2015 nearly 70,000 m^2 of new lettable area is expected to be added, and even more in 2016 when more than 130,000 m^2 of new production is expected to be completed in Greater Stockholm.

Only a few projects have been started speculatively. Projects currently in progress include several properties in the new Arenastaden in Solna, where many of the buildings are now fully let, as well as NCC´s Torsplan with a recent letting. Another speculative project – but with no lettings announced so far – is Skanska's Stockholm Seaside in Hammarby Sjöstad, which is part of the plans for Stockholm New.

In recent years several large companies have chosen to relocate to office areas outside the CBD and the Inner City. The great majority of these areas lie north of the city and are concentrated mainly in Kista, Solna and Sundbyberg. These areas have good communications both to the Inner City and to Arlanda Airport, which is an important hub. They are also municipalities that have invested heavily in development, and where it is easy to find large premises that can be adapted and modernised, as well as new production. This trend is expected to continue, since many companies and organisations have begun to review their requirements and the benefit of having a unified office. Space efficiency and lower costs are two of the main reasons for relocations, but factors like a changing business environment, mobility and a good working environment have also become more important. The property sector's impact on the general environment is also becoming increasingly important to both investors and tenants, and the majority of future construction projects are expected to be environmentally certified.

The decision in the beginning of 2014 about strengthening and expanding the infrastructure will become central for the development of Stockholm, since opportunities and the ability to attract people are linked to good infrastructure. Last year several major businesses decided to co-locate their offices, including Tele 2 which decided to move from its two existing offices in Kista to a new extended office building also locat-

“Co-location of offices will continue as the space-efficiency and cost benefits of a single site become evident”

ed in Kista. TeliaSonera decided in April to co-locate its offices in Farsta and Stureplan to new office premises above Mall of Scandinavia in Arenastaden. SEB is to lease 67,500 m² of offices on a 20-year contract also in Arenastaden and will be leaving all its present offices except Kungsträdgården. In the spring Swedbank moved into its new premises in Sundbyberg and thus vacated its offices in Gallerian. Previously Skatteverket (the Tax Authority) co-located its offices in Solna Strand and thereby left empty nearly 30,000 m² in the property Fatburssjön 9 on Medborgarplatsen on Södermalm. Before this, Apoteket had left the same property to move to Arenastaden. Fatburssjön 9 thus had 40,000 m² vacant. During 2014 much of this was let and only 4,000 m² are now vacant. One major tenant is EA/DICE which will occupy 11,500 m² in December 2015.

Most of the premises that became vacant last year will be renovated or rebuilt before returning to the market. For some time there has been a shortage of available office space in Stockholm CBD, which together with a strong and office-dependent service sector and the shortage of new office building projects in the CBD has resulted in today's low vacancy rate of about 4.0%. This prevailing low vacancy level has led to a number of new development and rebuilding projects in, or adjoining, the CBD. Future relocations and refurbishments have not yet affected the vacancy rate, since many moves will take place during the next two years when new projects are being finalised. Following the completion of several CBD projects the expected vacancy rate is about 4.5% in 2015 and about 5.5% in 2016.

After a strong recovery in the years following the financial crisis, Stockholm CBD had weak rental growth in 2013. But in 2014 rental growth gathered speed again and the market rent for newly renovated and space-efficient properties in Stockholm CBD now stands at SEK 4,650 per m². This is due to the small supply of office space in the CBD that will continue for the next few years until new developments and refurbishments reach the market, as well as to the high demand for new and modernised premises. Newsec estimates that the market rent will rise to SEK 4,850 per m² during 2015 and go on rising to SEK 5,100 per m² during 2016.

The retail market

Retail trade in Sweden is showing positive growth, partly due to a successful December as sales totalled almost SEK 70 billion, representing a growth of 5.1% compared with December 2013. Swedish households are well consolidated financially, and with a continuing low interest rate and low inflation the desire for consumption has slowly but surely returned. The Swedish economy has moved forward stably, and household consumption will be an important growth engine in coming years.

The population of Greater Stockholm is growing fast, and ongoing urbanisa-

"A good shopping centre does not depend only on what it sell, but on the destination and the experience it offers"

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

Shopping centres in Sweden are increasing in size, and their premises – especially in the major city regions – are being let at new top rents. Newly built and newly renovated shopping centres in attractive locations have no problem in filling their vacant spaces, and top rents in the best regional shopping centres outside Stockholm are now on a level with top rents in the CBD. As much as 2.8 million m^2 of new retail space is currently planned, being developed or being built all over Sweden. Assuming that all these projects come to fruition, this means an increase of around 30.0% of the existing retail space. To achieve profitability in all these new stores and shopping centres at a time when e-commerce is taking ever-greater market shares will be a huge challenge for the retail sector and the view about how large shopping centres should look and be developed has changed over the years. These days a good centre does not depend only on what it sells, but on the destination itself and the experience it offers, where good restaurants, cafes and service play an important part.

In the autumn of 2015 the latest addition in large retail centres will be opened. Mall of Scandinavia, located in Arenastaden, will contain 250 stores and restaurants in an area of more than 100,000 m^2. Several major lettings were made last year, including Victoria's Secret, River Island and O'Leary's biggest restaurant yet. In Täby Centrum, H&M will open its largest store for a mall in the Nordic region – 4,000 m^2 – in 2015. PUB's building at Hötorget in the middle of Stockholm is one of Stockholm's oldest department stores. Over the next two years the store will be rebuilt as a hotel, and in 2016 the Scandic Haymarket Hotel will open in its place.

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NORWAY - HISTORICALLY HIGH MARKET ACTIVITY

The investment market
2014 was an extremely good year on the Norwegian investment market. We have never before experienced such a high transaction volume or such growth in property values. The total transaction volume for 2014 was about NOK 77 billion. The previous record of NOK 68 billion was set in 2006. But after adjustment for divestments with 'change of control' (transactions including Entra Eiendom, Fortin, Aberdeen Fund 2 and BWG Shares) the total transaction volume for 2014 comes to about NOK 55 billion.

During Q4 the prime yield fell from 5.0% to 4.75%. Other key figures are that logistics properties with long contracts were priced 75-100 basis points lower at year-end 2014 than in 2013, and the office segment represented about 50.0% of the total transaction volume. Around 40.0% of all transactions in Norway occurred in and around the Oslo area, and foreign investors accounted for around 25.0% of the volume in 2014.

The three largest transactions during the year were the state's divestiture of around 50.0% of Entra Eiendom, the sale of Fortin to Starwood Capital (about NOK 5 billion in property values in Norway), and the sale of BWG Homes to OBOS (about NOK 2.5 billion in land value in Norway). Looking at pure property transactions, the three biggest deals were Madison's purchase of 59.5% of Statoil Fornebu for about NOK 2.1 billion, KLP's purchase of Schweigaardsgate 21-23 for NOK 1.75 billion, and NIAM Fund V's purchase of Aker Solutions in Hinna Park for NOK 1.5 billion.

Newsec's predictions for the coming year are that we have probably not seen the top yet; the yield will go further down; and property values will rise in 2015. However, Stavanger will probably go in the opposite direction and experience higher unemployment and falling property values. The total transaction volume will probably be around NOK 60 billion in 2015. We are aware of transaction processes worth NOK 25 billion during Q1.

Falling oil prices, higher vacancy rates and sales to secure gains are factors that can affect the market negatively. Arrangements available to foreigners in the form of longer bid procedures will lead to a continued high and increasing percentage volume of foreign investors in 2015. Class-B retail properties will take a larger share of the market. After several years of low growth, the turnover for the 400 largest shopping centres in Norway rose by about 4.0% in 2014, far above our expectations.

The present low exchange rate has imposed an effective 10.0% discount on Norwegian property values since autumn, but the cost of hedging contributed negatively in the calculations and gives Norwegian investors a competitive advantage.

The office market
Slow processes and a low number of signed contracts are a simple summary of the Norwegian office rental market in 2014. For some years now few large companies have been looking to move, which seems to be the main reason that larger buildings have had the greatest difficulties. Competition has been tough, and landlords have had to discard their dreams of finding major tenants and look instead for smaller tenants to fill the buildings.

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

Many of the larger enquiries received in 2014 were looking for large combined premises. There have been few large searches purely for offices. Tesla made frequent searches for premises between 1,000 and 5,000 m^2 in Norway. Staples was recently looking for 25,000 m^2.

Although the office rental market felt slow during the year, rents rose steadily in all areas for the first nine months. Rents throughout Oslo are now up by an average of 5.0% compared with the same period last year – twice the rise in the Consumer Prices Index.

"Decreasing yields and rising property values in 2015"

The retail market

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

Newsec values more than 100 shopping centres every year and has analysed all the centres in its database. In the period December 2012 to December 2013 the unweighted average total rent increased by just 0.29%. This is far below the 2.5% rise in the Consumer Prices Index. Even in the larger centres (valued at over NOK 500 million) rent increases were below 1.5%.

But in the much larger number of small centres rents actually fell by an average of 0.14% in 2013.

Falling rents follow falling revenues, which encourage tenants to renegotiate their rent and demand discounts. The reason for the decline in revenue for traditional retailers is simple: consumers are increasingly shopping online. In 2013 online sales in Norway increased by almost 12.0% (to about 4.0% of retail turnover) and are now growing nine times faster than standard retail. One out of three Norwegian consumers shops online each month (one million people). Virke (the Enterprise Federation of Norway) estimates that Norwegians will shop online for NOK 100 billion in the whole of 2014.

By 2020 stores may be losing NOK 50 billion in annual sales to online buying. And their falling revenues lead not only to falling rents in shopping centres but to rising vacancies, higher yields and lower property values for the site owners. Shopping centres must thus follow the lead taken earlier by city-centre shopping, by diversifying their offer to include leisure activities such as cinemas, bowling and restaurants that will draw people in. Size is also important. Shopping malls are getting bigger, and the number and variety of stores and leisure attractions are important in pulling in customers. Centres must also fight back by incorporating e-commerce into their own businesses, by encouraging their big-box and other tenants to link to their own warehouses for fast delivery, and in general by turning the purchase of goods into the consumption of services. Mobile retailing – the growing use of phones and tablets for 'showrooming' and price comparisons when on the move, and also for direct payments in store – must also be factored in.

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FINLAND - INCREASING INTERNATIONAL DEMAND

The investment market
The year 2014 will go down in Finland's property market history for its high transaction volume and the return of international investors. Throughout Europe the equity flowing into funds and the relatively low cost of loans forced investors to seek out new investment properties, but the common problem was a shortage of suitable properties to acquire. In Finland low interest rates, easing-measures by the central bank and investors' faith in the future were evident attractions.

By the end of 2014 the total property transaction volume in Finland was about EUR 4.26 billion, which is almost EUR 1.75 billion or 70.0% more than in 2013. Of this, the total investment volume by international operators doubled from the previous year to about EUR 1.5 billion, or almost 35.0% of all significant property transactions. If the large ownership-structure arrangement between real-estate investment company Sponda and pension company Varma which created the new fund Certeum is excluded from the transaction volume, the foreign operators' share amounted to around 45.0%.

However, the increasing international demand has not made the basic criteria of property investment obsolete. The property's location, lease maturity and other economic and technical aspects still had to meet expectations if it was to appear interesting and low-risk. If these criteria were met, the competition was tough and yield levels remained low, whereas for weaker properties the number of potential investors was smaller and the pricing reflected the elements of uncertainty. The arrangements seen in 2006–2008 in which weak properties were bundled into a portfolio with good properties and changed hands together have not reappeared in the Finnish market.

The increased international investment demand and the low yield levels in prime properties did not reach all property segments. There were divisions between geographical regions and between buildings and spaces of different types within regions. In particular, the majority of the demand for office property was still directed towards the Helsinki Metropolitan Area (HMA), although retail property transactions were also conducted by international investors elsewhere in Finland.

The office market
Two particularly interesting office-space transactions were carried out in 2014, when Brondankulma and part of the former Nokia head office changed owners. The reported yield levels for both properties were the lowest in their submarket. This seems to indicate that there is demand for good low-risk properties and willingness to pay a relatively high price.

Meanwhile, there are still more than a million square metres of vacant office space in the Helsinki Metropolitan Area (HMA). It is difficult to obtain tenants for older spaces in more challenging locations. The increased risk of vacancy has strengthened the tenants' position when negotiating agreements. Even investment in upgrading such older buildings does not always provide a solution to the problem, in which case larger-scale development may be the answer. If the location and the official regulations permit the demolition or rebuilding of the property, conversion into a residential property may be a tempting alternative. The profitability of such projects is significantly affected by current prices for residential properties as well as the time it takes to sell new properties in the area. The concept is supported by recent public discussion regarding the conversion of old office space into residential properties and the acknowledged demand for more residential properties in the HMA.

The retail market
During 2015 household purchasing power will increase only marginally. It is bolstered by exceptionally moderate rises in consumer prices on the back of falling oil prices, and by changes to the tax base in the Government's taxation of earned income. Fear of deflation and the start of fiercer competition between retailers have lowered the prices of grocery products, which is expected to increase consumption. Continued low interest rates will also support household purchasing power. Against this, possible increases in municipal taxes and social security contributions will restrain consumers' spending power. According to the Ministry of Finance, private consumption will increase by no more than 0.3% in 2015.

"Strong fundamentals strengthen investor confidence"

It is possible that rebounding global economic growth will gradually increase domestic economic activity through exports. In the long run, employment will improve and consumer confidence will strengthen. However, real income growth will remain slow. Precautionary saving will decrease and private consumption growth will probably pick up in 2016.

So far the decline in household confidence has had only limited effect on consumer behaviour. The risk is that if consumer uncertainty becomes protracted, household saving will increase, with an immediate adverse effect on consumption. The increased debt burden faced by households constitutes another risk. During the past 10 years the household debt burden has almost doubled, but at the same time interest costs have remained at an exceptionally low level. A faster-than-expected rise in interest rates would slow the growth of consumption. Against this, falling grocery prices will help the growth of consumption.

Despite the uncertainty, demand for durables will develop more favourably in 2015 than other areas of consumption. Low interest rates are driving up household debt. The slight slowdown in the growing value of housing loans has continued, but demand for consumer credit has risen more sharply than last year. In January to October 2014, consumer credit increased by 4.6%. The number of people employed will continue to fall this year, although less sharply than last year. Households' real disposable income will remain unchanged. There will also be no change from last year in the volume of private consumption.

In real-estate investment markets, it has become clear that retail premises no longer have a safe-haven status. Increased online trading, especially in specialised consumer products, as well as changes in consumer purchasing power, have played a significant role in reducing both interest in retail property investments and the occupancy rate of retail properties. Although the retail industry continues to face challenges and uncertainties, however, investors still consider retail properties attractive. Recent buyers include Trevian, Cording Real Estate Group, H.I.G. Capital and Redito AB.

Retail rents are expected to be sluggish during 2015 in some areas, including Helsinki CBD. Retail vacancies have increased in central areas where demand for space has traditionally been strong. A similar trend is expected in Espoo and Vantaa, two other municipalities near Helsinki. However, the best shopping centres seem to suffer less from market conditions than other types of retail space. According to market data from the Finnish Council of Shopping Centres visitor numbers and sales have remained quite stable.

The amount of empty retail space in central Helsinki increased by about 9,000–10,000 m^2 in 2014, and few large premises became occupied during the year. In many submarkets, according to the property information service KTI, there have been few retail lease agreements and median rents for new leases have decreased slightly.

Nevertheless, retail property development is active, especially in areas of the HMA next to the new western metro line. New shopping centres are under construction on Lauttasaari in western Helsinki and at Tapiola in Espoo. Further west in Espoo at Matinkylä, the Iso Omena shopping centre extention project is under way. Citycon currently owns the whole shopping centre after acquiring GIC's 40% share in 2014.

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DENMARK
- ACTIVITY MOVING TOWARDS SECONDARY MARKETS

The investment market
The property market in Denmark in 2014 witnessed yet another increase in demand, and the total transaction volume ended at DKK 30 billion, which is an increase of 15.0% year-on-year. Despite a good trend in property market values in recent years, alternative investments such as the stock market have shown an even stronger performance. As a result, property investments continue to be viewed as attractive.

A number of new investors entered the Copenhagen property market in 2014, which has contributed to the increasing demand but also highlighted the fact that most of the investors in this market are pursuing the same products. Because the supply of prime properties is limited, the total transaction volume has not increased as much as the demand.

In 2015 demand for prime office properties will continue to be very high, and activity will spread to the more secondary markets. The drop in yields in all segments will make investors change their risk profile slightly in order to secure decent returns. This trend will follow an improvement in the occupier market as the overall economy continues to grow slightly. As a result, the occupier demand for some of the secondary properties will lead to increasing investment activity in this segment.

The office market
The occupier market is still struggling because growth in employment remains slow. As a result, average vacancy rates in Greater Copenhagen are still around 10.0%. However, vacancy rates both in and just outside the CBD have dropped slightly. Much of the old outdated office stock in the CBD area is steadily being converted to residential use due to a very high demand for apartments unit.

There are several large office projects in the pipeline, but the overall picture is still one of low construction activity and no speculative construction in the office segment. In 2015 it is expected that around 175,000 m^2 of new office space will be built in Greater Copenhagen, including 40.0% in the new CBD (the waterfront).

The imbalance between supply and demand for prime office investments has resulted in the yield dropping to 4.50%. However, the secondary office investment market is still being affected by the country's sluggish economic growth – the reason behind the slow employment growth and struggling rental market – because of the higher risk of difficulty in re-letting.

Office rents have remained stable throughout 2014, and the prime rent in Copenhagen currently stands at DKK 1,600 per m^2. The low demand has put pressure on rent levels, which in several areas has led to increasing price differentiation between up-to-date, space-efficient office premises and more dated premises that are inefficient or inflexible.

The retail market
The Copenhagen prime retail investment market was highly attractive in 2014, and the market is still dominated by international investors. The high-street market continues to be very attractive, which has put a downward pressure on the yield. Local shopping centres with a strong catchment area in cities outside Copenhagen, such as Lyngby and Herlev, have also experienced some significant acquisitions in 2014. The activity in the Danish retail market is expected to continue in 2015.

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THE BALTIC REGION - OPPORTUNITIES FOR NEW INVESTORS

The investment market
The Baltic market is still attractive due to the high return on investment. The key players in the market are Nordic, Baltic and Russian investors, and all investments are still focused on the Baltic capital cities - Vilnius, Riga and Tallinn. All investments are still focused on the Baltic capital cities – Vilnius, Riga and Tallinn. The Baltics' total transaction volume of about EUR 415 million in 2014 was less than in 2013, due to geopolitical uncertainty, global economic slowdown and caution among investors. 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 at around 7.00% to 7.25%, with the most attractive properties being traded at yields up to 50 basis points lower. Secondary properties produce yields between 8.00% and 8.50%. A sligth increase in the Baltic real-estate investment volume is expected in 2015.

The office market
By the end of 2014 the stock of modern office premises in Vilnius was 404,500 m^2 or 0.76 m^2 per capita. This number excludes entirely built-to-suit and partially sold projects. The total office stock increased by 5.2% (19,870 m^2 of gross lettable area) in 2014, and is expected to rise by about a further 120,000 m^2 of modern office space during 2015-2017. Currently six out of ten planned projects in Vilnius are under construction. Vacancy in modern office buildings, especially in the CBD, is very low at the moment. Average vacancy in prime offices fell below 2.0% early in 2014, while in Q4 2014 vacancy for A-class properties did not even reach 0.5%, which means that almost no such offices are currently available on the market. The largest rental transactions in 2014 were made by shared-service centres and IT companies, which together occupy over 20.0% of all office stock in Vilnius. The trend of pre-lease is coming back to the Vilnius office market and agreements are often signed 6-9 months in advance.

Activity in the Riga office market increased in the second half of 2014 due to the increased supply of vacant good-quality office space and to stable office rents for B-class offices. Since no new speculative building of prime A-class offices is currently under way in Riga city centre, the supply of city-centre offices will remain the same for the next two years. Although owners' expectations about rent levels have risen, average rents in contracts signed during 2014 did not change significantly from 2013. We now foresee a rent increase during 2015 – especially for prime offices in Riga – following initial rises seen in Q4 2014.

Importantly, two office buildings in Riga erected as 'built-to-suit' projects for public-sector institutions went into operation in 2014, and this impacted the vacancy rate for modern B-class offices in Riga, which rose from 8.3% in Q4 2013 to 9.4% in Q4 2014. The trend of pre-lease still plays no role in the Riga office market. Tenants are price-sensitive and prefer not to engage with a landlord in the long term. However, during Q4 2014 there was a tendency to return to long-term agreements (7-10 years) for large leasable areas.

The Tallinn office market has come through its recent shortage and is gradually moving towards a tenants' market. This trend is expected to deepen in the next 2-3 years, considering developers' plans. In 2014 developers delivered just under 19,000 m^2 of office space (all in B-class) to the Tallinn market, which is more than 30.0% below the volume delivered in 2013. The volume of new development currently declared by developers is about 25,000 m^2 in 2015 and 33,000 m^2 in 2016, including both A- and B-class. However, due to likely market saturation and even a threat of oversupply, along with some uncertainty, we expect several developers to postpone delivery of office-buildings construction which has not yet started.

The retail market
In 2014 the vacancy rate in the largest shopping centres in prime locations in Vilnius fell to 1.5%, while rent prices continued to rise slightly. Demand in the retail market is growing as most retailers have expansion in their plans. All of the largest shopping centres are attracting new 'big brand' tenants and improving their tenant mix. After a few years' break in shopping-centre developments in Vilnius, the foreign/Estonian investor Nantucket Holdings started its new Nordika project in 2014. This

"Increasing rental expectations"

will consist of two stages: the first building of 18,000 m² is expected to open in the summer of 2015, and the second stage of 22,000 m² should be finished in late 2016. The Akropolis Group has updated its plans to start development of a second Akropolis shopping centre in Vilnius, but no earlier than 2016-2017.

In Riga, rents in the best shopping centres are expected to remain stable in 2015. During the second half of 2014 vacancy rates were stable at around 1 to 2.0% in Riga's most successful shopping centres. The reason is the centres' strong rotation of tenants because of the further expansion of such brands as H&M, Reserved, Lindex, Next etc.

The biggest new development in 2014 was the opening of the 5,000-m² RAF Centrs shopping centre located in Jelgava and developed by EfTEN Capital. An upward trend in shopping-centre development has attracted the largest Lithuanian developer VP Group, which plans to open a new Akropolis shopping centre in Riga. Linstow Center Management also plans to expand its two existing shopping centres by 2017-2018. IKEA has announced that it plans to enter the Riga market in the next two years.

In 2014 vacancy in well-performing shopping centres in Tallinn remained below 1.0% and rents have stabilised. In Tallinn, 60,000 m² of new retail space was delivered to the market in 2014, which exceeded the total volume of the previous four years. This volume includes completion of the large-scale extension of the Ülemiste Centre, owned by Linstow, which has now become the largest shopping mall in Tallinn.
Construction work on another significant retail development project, Moekimbinaat by ProCapital, located just next to the Ülemiste Centre, has already started. In 2016 this shopping centre will bring another 60,000 m² or so to the market.

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NORDIC PROPERTY FINANCING

The bank market has continued to develop, with falling interest-rate margins for the majority of large and medium-sized companies at the same time as loan-to-value ratios have generally continued to be relatively conservative. The banks' mantras about 'further business' and 'never doing just one single deal with a new client' seem to have softened at most of the banks. At the same time, smaller companies are still sometimes penalised with interest-rate margins that are not at all on a par with the credit risk.

Small and midsized companies are often also penalised because the loan documentation is based largely on the bank's General Loan Agreements. One can say that by these loan agreements the bank is able, without further explanation, to terminate the loan, demand additional security, raise the interest-rate margin, demand extra amortisation etc, but that there is a balance, in that the bank will never actually do this because it then loses the client. Many borrowers would probably argue that the subject has sometimes been of very little interest to the bank, which is more concerned with its own advantage. There are also some banks that are the exact opposite. These have an even-handed view of balancing security so that both the bank and the borrower are comfortable. The bank is not left with too little security, and the borrower is not burdened with both belt and braces. The interest-rate margin is allowed to reflect the credit risk, with the view that the bank should obtain reward and comfort for the risk it takes while the borrower gets to earn money and will hopefully become a regular client.

Regarding the loan-to-value ratio, this continues to be a restriction. And that is a good thing. A senior lender should not lend all the way from the bottom up to junior, mezzanine or equity level and call it a senior loan, and thereby receive an interest-rate margin at a senior pricing level while competing for business - as was in fact done from time to time in the past.

For a relatively long time now the low interest rate has made it cheap to lend money. Prices are also very low for going further out on the curve and hedging interest rates long. How this option is used by borrowers varies, however. It may sometimes be misleading when cash flow estimates look favourable good right now, not least because of the above and it is a good thing to evaluate if the cash flow still is showing good key figures even with a higher interest cost than today. However there is no reason to become over-enthusiastic when setting the level of the future interest rate level, as it can sometimes seem with the models that some banks use.

The bond market during the second half of 2014 was weaker than earlier. This is explained to some extent by generally falling coupons, which meant that bond investors thought it was possible to obtain similar credit elsewhere but at higher coupons. There were also some external factors until late in 2014 that made the market even more difficult. However, this has now begun to ease and there appears to be an increasing appetite among the bond investors. The type of bond investor also varies from time to time and even from transaction to transaction. But it feels healthy that the market is starting to recover, since it forms a significant complement to senior lenders and even a significant competitor.

A proportion of banks have a fairly deep-rooted unwillingness to admitting junior debt, whether a junior lender or a subordinated bond, which may be a little surprising. Naturally this is no good in a default situation if there are various lending parties and the security mass has been structured poorly. But if it is done with consideration and understanding for both parties – with a sound loan-to-value ratio, with a definite amount of equity in the structure and with a clear documentation – it should be a sound proposition for both types of lender as well as for the borrower. Sometimes it may just be a fear of what for some reason is unfamiliar, or a lack of full understanding of how it works. But we all have an opportunity and an obligation to try to make good, sound transactions for all parties.

> “Hopefully there will continue to be a market with room for lenders of different kinds, who – individually or together – can continue to make a positive contribution to a well-functioning debt market”

There is also a modest but growing number of fund-like companies that lend out both senior and junior debt, showing in general a refreshing understanding of business and an attractive credit-giving process. It appears that this type of player has a great opportunity to attract a growing market share.

Hopefully there will continue to be a market with room for lenders of different kinds, who – individually or together – can continue to make a positive contribution to a well-functioning debt market.

NEWSEC DEBT CAPITAL MARKETS

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

MATS KARLSSON, HEAD OF DEBT CAPITAL MARKETS

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

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INFRASTRUCTURE AND ENERGY

THE CHASE FOR CASH YIELDS AND NON-GDP-CORRELATED RETURNS

The low-interest-rate environment has increased interest in alternative asset classes that can provide competitive cash yields. As part of their portfolio allocation, investors are also looking for returns that have a low correlation to GDP.

Since 2006, Swedish wind power has increasingly offered investors in the Nordic countries an infrastructure segment of significant scale for consideration. Interest in this segment has grown significantly in recent years, despite challenging conditions resulting from low hedgeable power and certificate prices. However, Sweden has benefited from sites with low population density and good wind regimes, enabling energy to be produced at competitive cost. Today the top Swedish wind farms have some of the lowest energy costs in Europe.

In the last few years, developments on the power markets have also made longer-term power purchase agreements (PPAs) and electricity-certificate purchase agreements (EPAs) possible. Through intelligent structuring, hedging solutions and use of the long-term PPAs and EPAs, direct institutional investors averse to merchant risk have increasingly been able to address the Swedish market. Besides being able to undertake power or certificate sales without price risk, these investors also benefit from a low political risk, which stems from the low level of support needed from the consumer (less than 3.0% of electricity bills is currently paid as certificate price). Political risk is further mitigated through renewable-energy targets being aligned with supranational agreements between Sweden and the EU and between Sweden and Norway.

As part of the EU's climate and energy targets, Sweden has a legally binding commitment to increase its share of renewable energy to 49.0% of total energy consumption by 2020. The Swedish government has increased this target to 50.0%. As part of achieving this goal, Sweden has committed to adding 25 TWh of new renewable-power production by 2020 on top of the level in 2002.

The new Swedish government has asked the Swedish Energy Agency to investigate what would be needed to increase this target from 25 to 30 TWh by 2020.

The Swedish system of electricity certificates came into force in 2003 with the intention of ensuring (in conjunction with power sales) high-enough revenues to meet investors' return requirements and to permit sufficient expansion to reach the growth targets. On 1 January 2012 Norway joined the Swedish electricity certificate system. The target for the joint market is to increase the output from renewable energy sources in the two countries by 26.4 TWh between 2012 and 2020. Out of its initial target of 25 TWh by 2020, Sweden had achieved 11.8 TWh by 2012 and thus had another 13.2 TWh to add by 2020. Under the new joint system, Norway is to match this target.

The motive behind forming a joint market is to achieve the maximum benefit from the strong resources available in Sweden and Norway for the production of clean renewable energy with high efficiency and at low cost.

With the current target, the joint market requires investments in infrastructure of approximately SEK 13 billion or EUR 1.7 billion per year.[1] This creates a high-growth infrastructure market with relatively high unleveraged returns compared with core infrastructure, real estate and fixed income. Returns also have low correlation to broad market indices since volume is driven by natural resources and is inflation-protected. Because the Nordic power market is an EUR market, investments can be structured to have low SEK exposure.

For investors having difficulties with limiting their exposure to non-EUR currencies, the Finnish wind power market has also become interesting as a complement to the Swedish-Norwegian market.

Finland has established a target to build 2 GW of new wind power production. In order to achieve this target, the Finnish state is offering investors a total compensation of up to 105.3 EUR/MWh until the end of 2015 and up to 83.5 EUR/MWh thereafter. The total support pe-

1. Assuming average construction costs of approximately 480-500 EUR/MWh . Sources: NVE, 2014: Energimyndigheten, 2014: Newsec 2014.

"Today the top Swedish wind farms have some of the lowest energy costs in Europe"

riod is twelve years. The support is a so-called 'contract for difference', meaning that the gap between the power price and the cap of 83.5 EUR/MWh is guaranteed by the Finnish government – but with 53.5 EUR/MWh as maximum support. Although the system is not a full feed-in-tariff system, investors perceive it as such a system.

As a EUR country with large wind farm projects and what is perceived as a feed-in tariff, Finland is attracting a lot of investors seeking to take a big part of the infrastructure market that is about to evolve, estimated at approximately EUR 3.5 billion.

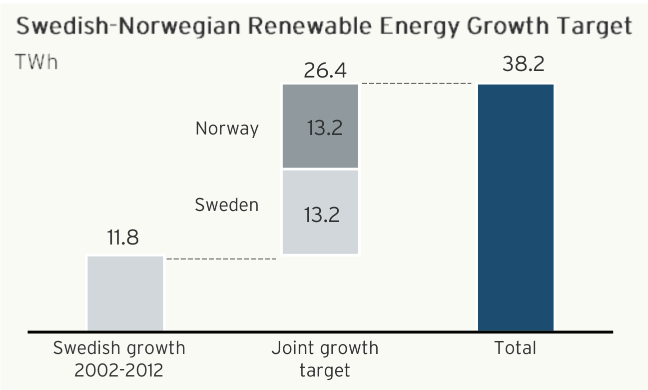
So far, international institutional investors such as Allianz, Munich Re, Prime Super and others have outrun local institutional investors in deploying capital to this segment. The likely reasons for this are that these investors have had in-house teams specialising in capital deployment to infrastructure and have also had the chance to establish international portfolios designed to spread market/political risks.

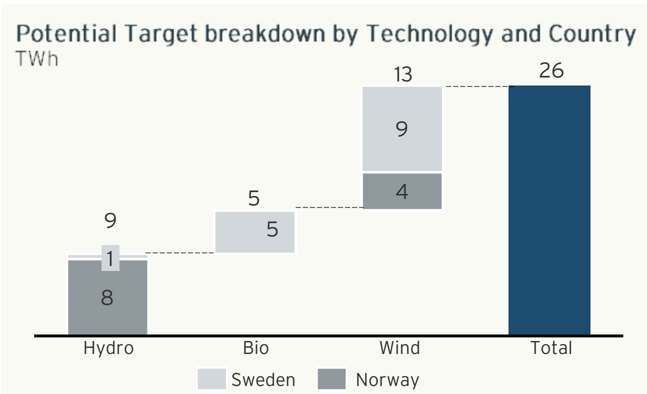
The Nordic institutional investors have been challenged by fairly strict allocation rules that limit their opportunities of investing in this segment. Some have also had difficulties with the merchant risks of the Swedish-Norwegian system that has so far provided most investment opportunities.

While international direct institutional investors, investment funds and independent power producers are expected to continue to dominate the market during 2015-2016, Newsec believes that opportunities on both the Swedish-Norwegian and the Finnish market will increasingly attract the Nordic institutional investors also.

A key to success on the Swedish-Norwegian market will be careful financial structuring to enable investors to get the key benefits from the segment while providing the right risk-return envelope through handling of merchant and political risks.

Today, Nordic wind power offers a very competitive and renewable source of new energy infrastructure. As a market valued at EUR 16-17 billion up to 2020, it is already an interesting infrastructure market and is expected to become increasingly so, with participation from international and Nordic direct institutional investors, investment funds, utilities, independent power producers and large energy consumers such as IT and property companies.





DEFINITIONS

OFFICES

- In the Nordic region, the forecast refers to new or newly refurbished modern and flexible office premises with normal area efficiency.
- In Finland, the forecast refers to office premises with normal area efficiency in office buildings in office areas.
- The size of the premises is assumed to be around 1,000 m^2.
- In the Baltic region, the forecast refers to new or newly refurbished stand-alone modern business centres.
- In Sweden the market rent includes heating and excludes Property Tax.
- In Finland the market rent includes heating and Property Tax.
- In Norway and Denmark the market rent excludes heating and Property Tax.
- In the Baltic region the market rent excludes all applicable taxes.

RETAIL

- Rent levels refer to attractive, modern high-street or centrally located shopping-centre retail premises with a prime location on the high street or in the shopping centre.
- In Norway, rents refer only to shopping centres.
- The rents do not refer to premises used for groceries and daily necessities (except in the Baltic region).
- The size of the premises is assumed to be around 250 m^2.
- The rent excludes heating and Property Tax in all Nordic countries except Finland where heating and Property Tax are included.
- In the Baltic region the market rent excludes all applicable taxes.

LOGISTICS

- In the Nordic region the size of the premises is assumed to be 5,000–20,000 m^2 with 5–10 years lease agreement.
- In the Baltic region the size of the premises is assumed to be from 3,000 m^2 with 3–5 years lease agreement.
- In the Nordic region the rent excludes heating and Property Tax.
- In the Baltic region the market rent excludes all applicable taxes.

RESIDENTIAL

- The forecast refers to attractive locations.
- The standard assumes buildings constructed in the late 1990s and with an apartment area of around 60–70 m^2.
- The rent includes heating and Property Tax.

EXCHANGE RATES

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

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

THE FULL SERVICE PROPERTY HOUSE IN NORTHERN EUROPE

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

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

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

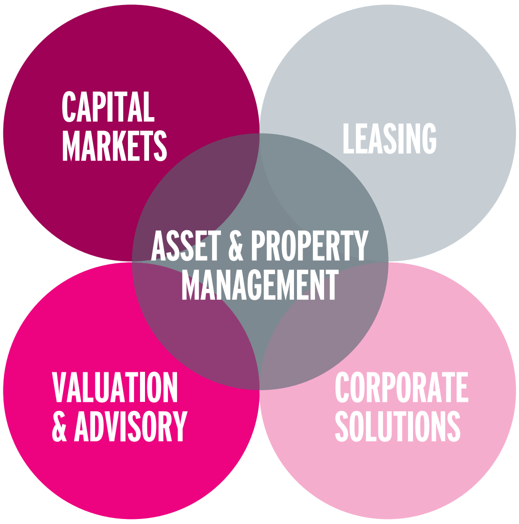
Our prime market is Northern Europe, but through our alliance membership with BNP Paribas Real Estate, we offer our services on the global market. This makes Newsec Northern Europe's only full service property house, and provides us with a unique ability to forecast the future.

A HISTORY OF GROWTH

Newsec is the result of a unique history of growth, characterised by constant originality of thinking. The first issue of the comprehensive market analysis, Newsec Property Outlook, was published in 2001. In 2015 the Newsec Property Outlook celebrates its fifteenth birthday, which is being marked by a special design for this year's issues. The autumn number of the NPO will also be the thirtieth issue of the report and will be published in a special expanded format.

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

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



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

CAPITAL MARKETS

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

LEASING

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

ASSET & PROPERTY MANAGEMENT

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

VALUATION & ADVISORY

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

CORPORATE SOLUTIONS

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

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