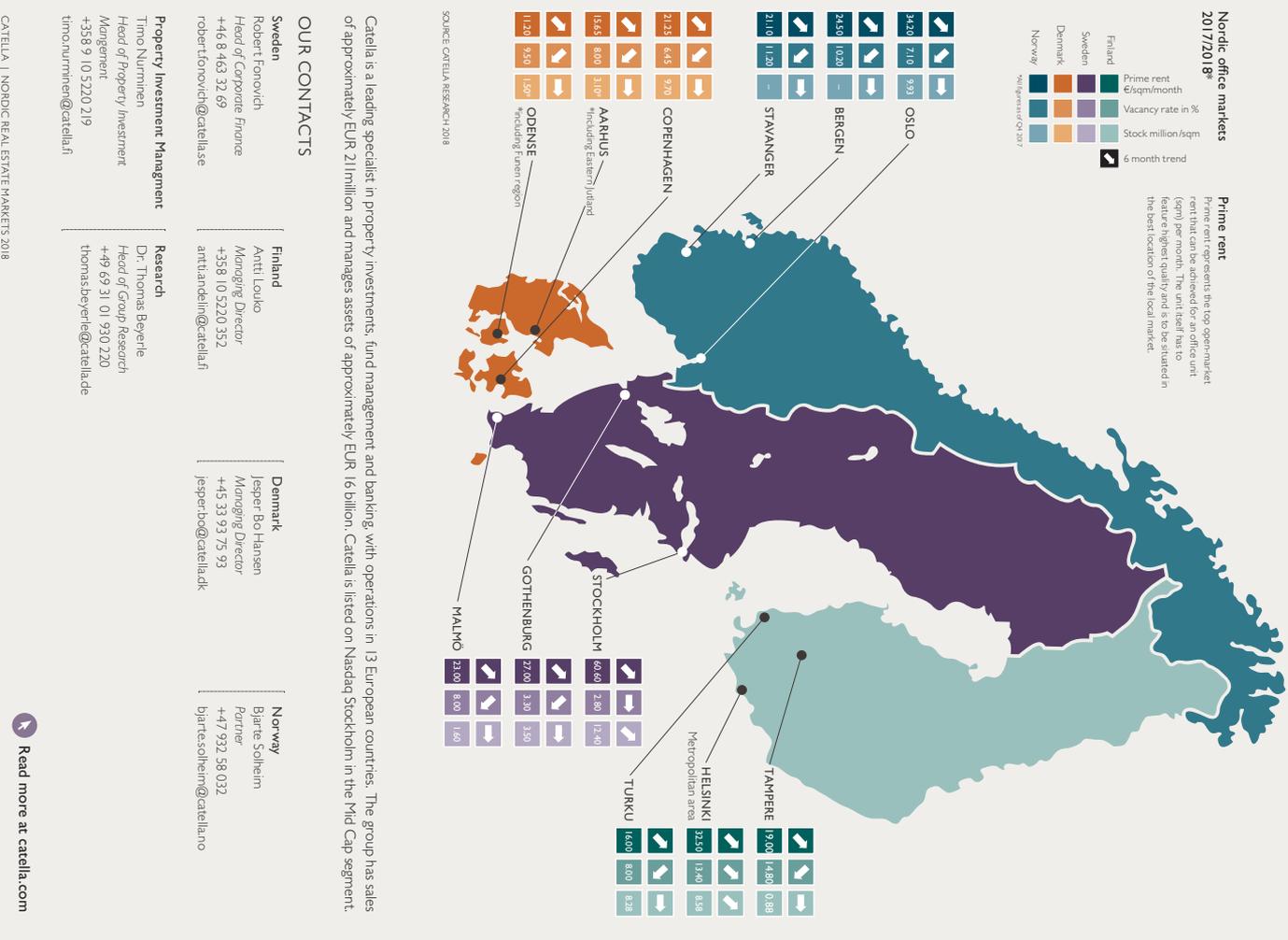


Office prime rents will increase further and vacancy rates are mainly declining. Development pipeline is well-filled, primarily with class-A spaces in the city centre.



CATELLA | NORDIC REAL ESTATE MARKETS 2018

High transaction activity among the Nordic countries

The Nordic economy performed very well in recent years and the outlook for the Nordics remains healthy, supported by the global recovery and continued low interest rates. Investors take advantage of the improving economy and have been attracting record levels of investment in the last few years, with even growing activity of foreign investors.

In Sweden the economy has gained strength, but the current weakening of the housing market will slow down growth, primarily due to lower construction. Nevertheless, growth will likely be robust in 2018, despite dipping somewhat from the high rates recorded in recent years to 2.6% in 2018. Employment in all major industries and sector increased in 2017 and demand for labour remains at high level. The Danish economy is gradually improving, so GDP will grow by nearly 2.2% in 2018, mainly due to solid export volumes and rising consumption figures. Inflation is set to pick up but only moderately to 1.4%. Employment growth is projected to remain strong.

Economic growth in Norway performed very well in 2017 with GDP growth of 2.0%, thanks to solid increase in private consumption and strong construction activity. Declining unemployment underpin consumption through rising confidence and higher incomes. Furthermore, the greatest improvement was in oil-related industries, where the overall growth outlook has turned positive.

The strongest growth occurred in Finland, which has left a long period of weak growth. Growth was mainly supported by a strong increase in investment, robust private consumption and net exports. Employment growth is set to continue, supported by rising investment and export growth. Real GDP growth is expected to reach 2.7% in 2018.

In 2017 the Nordic real estate investment market saw high activity and ended up at €43.3 billion in 2017, which means a slightly increase of 0.4% compared to the previous year. The investment volume was even mainly driven by strong activity of foreign investors as well as large portfolio deals. Nevertheless, looking at country level each of them performed different, thus Sweden is the only market who saw a drop in investment volume of approx. 33% to €12.7 billion. This is mainly due to the lack of larger office deals and portfolios. Finland, however, reached a record year with an investment volume reaching up to €10.0 billion, which is an increase of 41% to 2016. The acquisition of Sponda by Blackstone with €3.8 billion as well as the purchase of loggor properties by CIC for approx. €1.4 billion, contributed heavily to that record volume. Denmark, the second strongest investment market in 2017, achieved a volume of €12.1 billion and represent a growth of 39%. The good performance results in a high share of large portfolio deals greater €100 million and an exceptional strong activity in residential properties. Norway, totaled to €8.5 billion and represent the smallest market among the Nordic countries. There is only a slightly increase in investment volume compared to the previous year. This is due to the fact that there is a lack of larger

portfolio transactions and a continuous low demand for hotel and residential properties.

On average, the foreign investors share among the Nordic countries represent 44% in 2017 which means another strong increase compared to the previous year. Finland and Denmark share of international investors is above the average level and amounts to 73% respectively 55%. There is still a preferred focus on A markets (Helsinki, Copenhagen, Stockholm, Oslo) among the Nordic countries but foreign investors demand is widening, both in terms of geography and asset type. Investors from the US remain by far the top investors among the Nordics and placed €5.1 billion, followed by UK investors with €1.6 billion.

Further increasing demand from national and international investors and continuous favourable financing costs, exercise downward pressure on prime yields, especially in the office sector. In Sweden Buyers and sellers are generally meeting up in good locations in the major cities, where there is a lack of high-quality objects. Outside the major cities, however, there are lots of sellers while buyers are generally more selective. Average yields for commercial properties are now low compared to both GDP growth and the development on the equity market. Catella expects the average yields for commercial properties to remain stable over the coming 6–12 months.

The prime yield requirement in the Helsinki CBD fell to 4.15% and is currently 0.7 percentage points lower than during the previous cyclical peak in 2007. Despite a sharp fall, the prime yield requirement for offices in the Helsinki CBD continues to be 0.65 percentage points higher than Stockholm's 3.5%, meaning that there is still moderate potential for a decrease in Helsinki. There is an ongoing reduction of the office yield gap between Oslo CBD prime and second-tier located assets. Investors are seeking for higher yields and apply higher risks, thus many will find attractive returns outside of Oslo CBD or outside the largest cities in Norway. Prime yields will therefore remain stable in the short term. Copenhagen's CBD prime office properties are currently reflecting a yield of 4% and it is expected that they will remain stable or even decline further supported by historical low interest rates and a tightening global monetary policy. The retail prime yield in Copenhagen is the lowest among the Nordic markets and demand is even strengthening for secondary properties. Prime yield level is currently stabilizing while rent levels are at all time high. The demand will focus on strong secondary opportunities in the medium-term as prime opportunities in High Street locations are becoming more rare.

The Nordic real estate market achieved solid investment volumes in 2017, supported by increasing foreign capital and high demand in other sectors.

Sweden

TRANSACTION VOLUME IN EUR



SHARE OF INTERNATIONAL INVESTORS

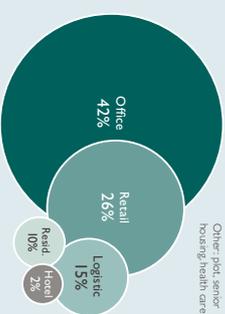


TRANSACTION VOLUME BY TYPE OF ASSET 2017



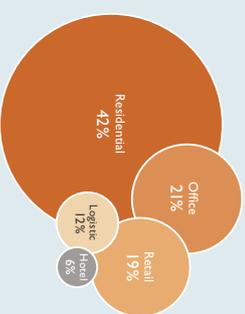
Finland

TRANSACTION VOLUME IN EUR



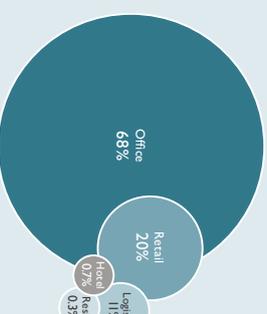
Denmark

TRANSACTION VOLUME IN EUR



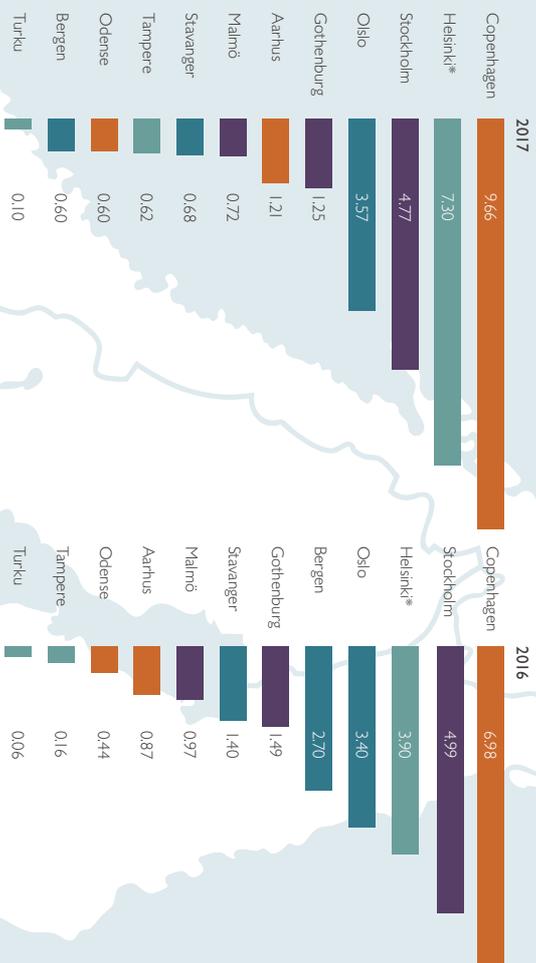
Norway

TRANSACTION VOLUME IN EUR



Nordic core markets are still in focus of investors but second-tier locations are gaining momentum. Yield gap between office and retail is shrinking.

TRANSACTION VOLUME BY MARKETS IN EUR BILLION



OFFICE AND RETAIL (HIGHESTREET) PRIME YIELDS 2018



Prime yield
The yield for a property of the highest quality specification in a prime location within the area. The property should be 100% let at the rental contract rate times (within 3 months). The yield should reflect net income received by an investor, expressed as a percentage of total capital value.

■ Office ● Retail (Higstreet)

*Metropolitan area