



Great opportunities are currently arising on the property market

Activity on the transaction market was relatively low in June, amounting to SEK 11.5 billion compared to SEK 28.3 billion and SEK 15.2 billion for the same month in 2017 and 2016, respectively. The rolling 12-month volume ended up at SEK 118 billion.

The transaction activity in June was relatively evenly spread across the market, including prime offices in Stockholm and properties/portfolios in non-prime locations with development potential. In addition, a number of large public property transactions took place. Investor demand is especially strong for well-located public properties with good tenants. Although foreign investors have increased their share of the transaction volume in 2018, the market was entirely dominated by domestic investors in June.

More and more market players are now expecting the Swedish GDP growth to slow down during the second half of 2018. The oversupply of newly built residences combined with lower residential prices is affecting new construction (especially in the Stockholm region), and it seems like this is also beginning to spread to the households' consumption. The equity market development for the listed

property companies is a good leading indicator of the total return development on the overall property market. The equity market is currently pricing in a total return on the property market of around 5 per cent per year in 2018–2019.

There is currently a strong investor interest in prime properties, while properties in secondary locations are becoming increasingly hard to sell. Over the past six months, average yields for office properties have fallen in line with the transaction volumes. A reason for the yield decline is that a large share of the transactions lately have involved prime properties in the major cities, where yield levels are low. A number of large Swedish institutions have lately sold/or are about to sell well-located office properties in Stockholm. Catella expects office rental growth in Stockholm to slow down or even turn negative from late 2018 due to increasing supply of newly built offices and slower GDP growth, while average yields for commercial properties are expected to increase (mainly by means of increasing yield spreads between A, B and C locations).

Global political risk has continued to grow in recent weeks due to increasing turbulence in the EU regarding the migration issue and growing trade tensions between the US and its allies (including the EU, Canada and Mexico)

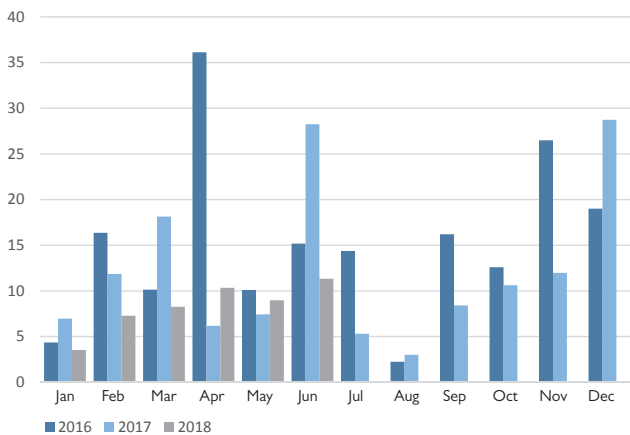
and China. The Chinese economy seems to slow down quite fast too, weighed down by its severe debt load. One of China's leading stock indices recently entered bear market territory, which is a warning sign of a looming economic slow-down. Despite this, the US economy is steaming ahead quite well, but the economy is late in the cycle (indicated by the low spread between 10Y and 2Y benchmark bonds).

All in all, it seems like the Swedish property market will enter a more hostile macro territory from now on. Great opportunities are currently arising for commercial properties outside the major cities (both office and retail properties). Yield levels start to look attractive as these locations are not prioritised by the major private and institutional investors. However, so far there are rather few willing sellers here as interest rates and vacancies remain low. There will also be a great need to inject new long-term equity and debt capital into the residential development sector in the coming years, an area where Catella also sees good opportunities going forward.

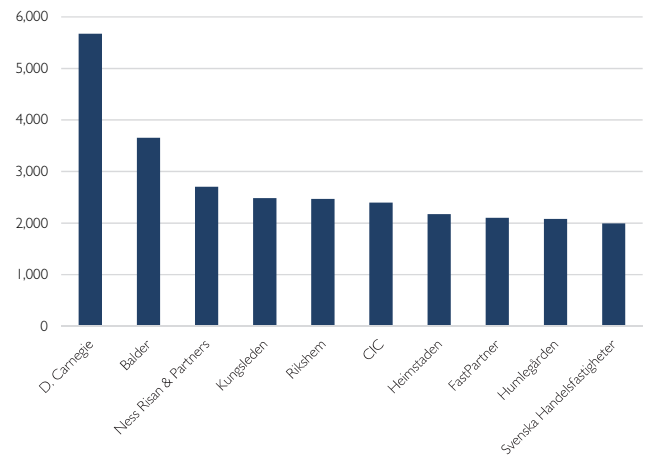


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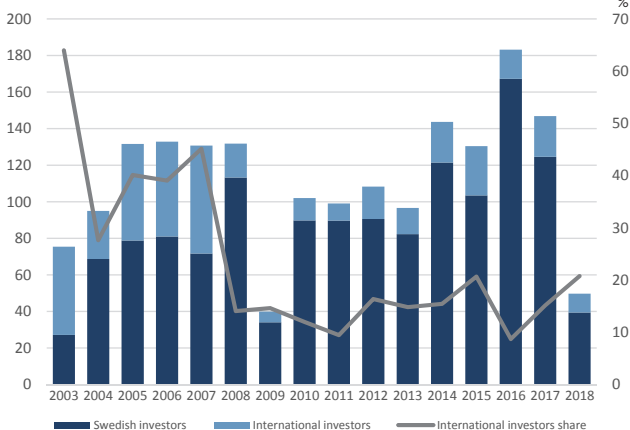
TRANSACTION VOLUME PER MONTH, BSEK



TOP 10 INVESTORS ROLLING 12-MONTHS VOLUMES, MSEK



TOTAL SWEDISH TRANSACTION VOLUME, BSEK



INVESTOR TYPE AND REGION

