

# Market report

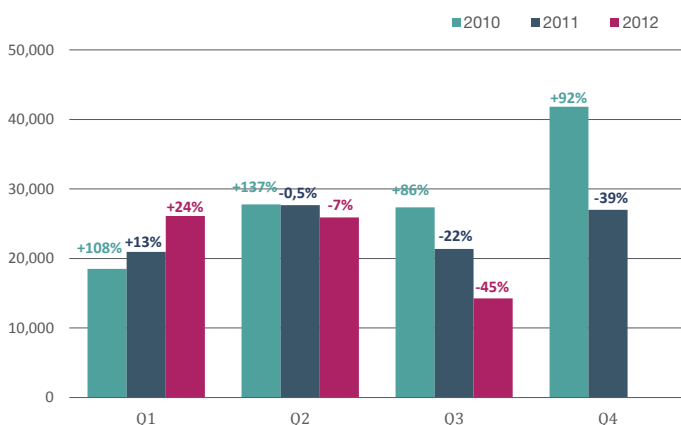
## Sweden Investment

Q3 2012

GRAPH 1

### Investment volume per quarter

Strong start in 2012 mainly due to a few large transactions

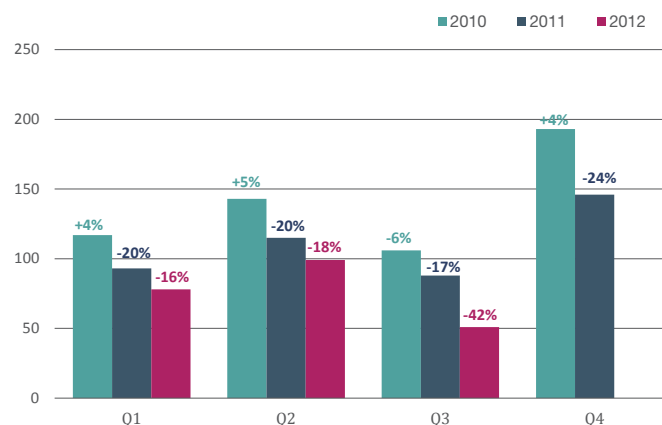


Graph source: Savills

GRAPH 2

### Number of transactions per quarter

Continuous decrease in the number of transactions since 2010



Graph source: Savills

## SUMMARY

### Overview

■ The demand for prime properties is still very strong and prime yields have remained firm and some transactions indicate that yields are hardening

■ The risk averse attitude has led to a focus towards prime assets such as prime offices in Stockholm, Gothenburg and Malmö as well as residential and public properties that offer secure cash-flows

■ The transaction volume declined in Q3, but a more worrisome trend is the continuous decline in the number of transactions carried through

■ In line with most economies in Europe Sweden's economy has experienced a mild downturn. However, Sweden's solid public finances allows for an expansionary public policy in order to support the economy

■ Bank lending is still scarce but indications are that lending is picking up and margins are slightly reduced, but the shortage of lending has led to a strong interest for alternative financing

“ Many indicators are currently pointing towards a slow-down of the economy with falling confidence indicators, increasing bankruptcy rates, increasing lay-offs to name a few ” Peter Wiman, Head of Research Savills Sweden



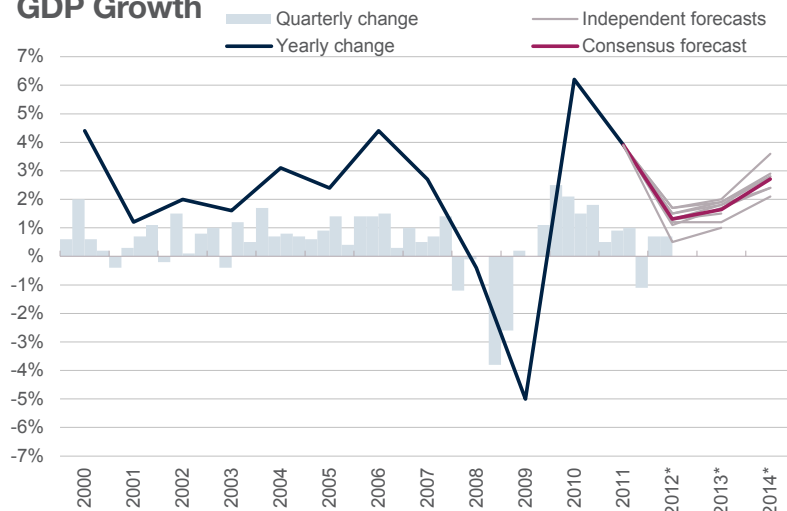
## Economic background

The GDP figures for the first half of 2012 was well above most predictions but the future still looks highly uncertain and the spreads between forecasts are high. The forecasts for the remainder of 2012 and 2013 has recently been significantly reduced. Many indicators are currently pointing towards a slow-down of the economy with falling confidence indicators, increasing bankruptcy rates, increasing lay-offs to name a few. The GDP is predicted to grow at a moderate pace of 1.3 % in 2012 and 1.8 % in 2013.

The slowdown is primarily related to lower demand for Swedish exports from the weakened euro-area. Swedish PMI-figure for both larger and smaller companies indicate a significantly weaker demand from main-land Europe and since the Swedish economy is highly export driven this is of course of quite some concern with regards to Swedish economy as a whole. The consumer confidence has also taken a hit in the last few months and is currently below its long-term average and combined with high savings ratios indicate that consumer spending will be relatively modest in the short-term. However, on the positive side are Sweden's stable public finances combined with that we are closing in on elections which is likely to lead to higher government spending that could offset a downturn.

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GRAPH 3  
GDP Growth



Graph source: National Institute of Economic Research, the nine major forecast providers (banks and

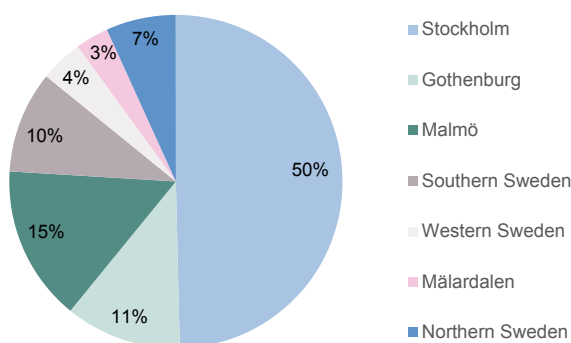
## Transactions

The transaction volume for the first three quarters amounted to approximately SEK 67 billion, which is to be regarded as stable and would indicate a possible year-end transaction volume which is in line with the long-term average. However, the last quarter was weak in terms of volume with a turnover of SEK 15 billion, which in fact is similar to

Q3 2009 and represents a drop of 45% compared to the corresponding quarter 2011. The transaction volumes in the first half of 2012 were boosted by take-overs of the listed companies Dagon and Brinova and also by the sales of large prime assets and portfolios in Stockholm, Gothenburg and Malmö.

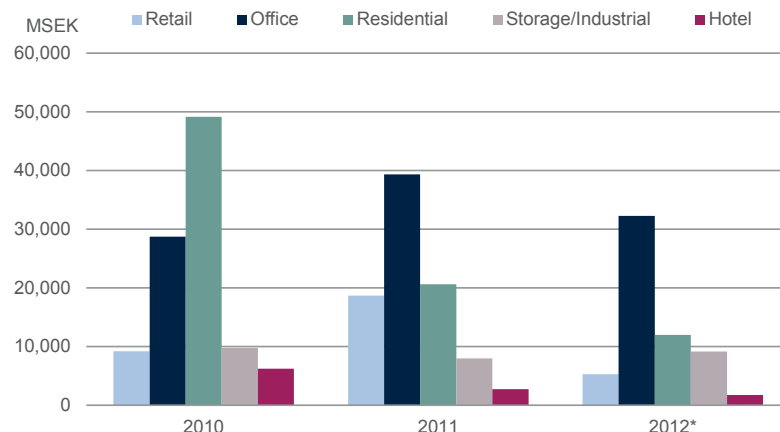
When analysing the number of transactions carried through another

GRAPH 4  
Breakdown of the volume in 2012 per location



Graph source: Savills

GRAPH 5  
Breakdown of the volume in 2011 per type of asset



Graph source: Savills

picture emerges, which indicates a much weaker market where the transaction pace measured on the number of transactions has continuously dropped since 2010. The transaction pace within the prime segment has remained stable as primarily domestic pension funds and institutions have increased their direct and indirect exposure towards properties. For assets not regarded as prime the current market sentiment is a lot more negative and in spite of the strong appetite for more “risky” assets the possibilities of securing financing for such assets are slim. The result is that the transaction volumes and number of deals within the secondary category has dropped.

In spite of the more sluggish market and from a European perspective the property market in Sweden is still quite liquid and Sweden remains at the fourth position ranked by transaction turnover after UK, Germany and France. Forced sales are still very uncommon and so far in 2012 only a handful of forced sales have been carried through representing a value of approximately one billion compared to SEK 12 billion for the full year 2011.

## Yields

The prevailing focus on prime assets has led to yields remaining firm and in some cases hardening. The weaker market for secondary assets has led to an increased yield spread between prime and secondary assets. The amount of equity targeting prime assets as well as demand is still very strong, which would indicate that

prime yields will remain stable in the near future. For secondary assets the future is significantly more uncertain and a scenario with yields softening is not unlikely.

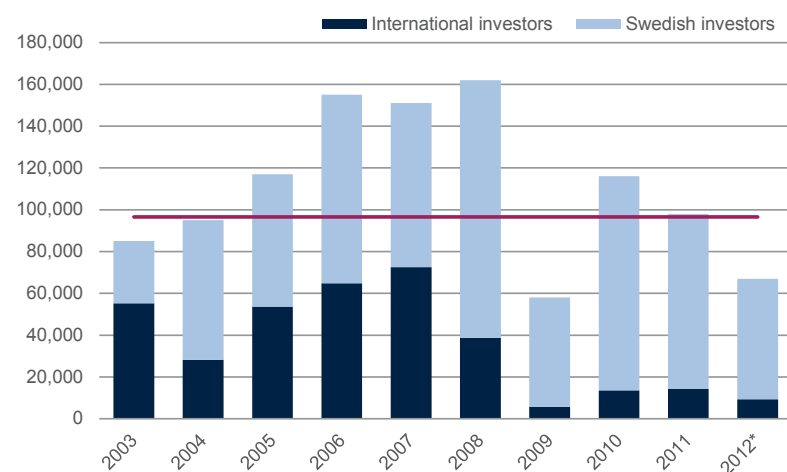
## Outlook for the remainder of 2012

Despite the negative macroeconomic environment, the outlook for Sweden is still more optimistic than the majority

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Peter Wiman, Head of Research  
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GRAPH 6  
**Transaction volume**



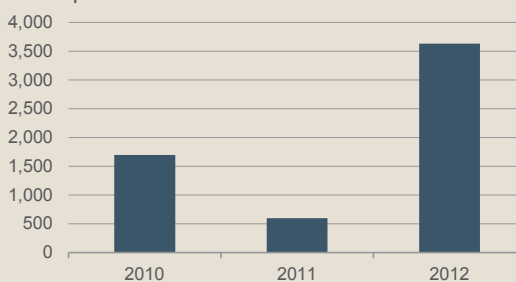
Graph source: Savills

## Alternative sources of financing

### Sharp increase in issued bonds

The scarcity of financing has led to an increasing interest for alternative ways of securing financing. Some of the alternative forms are seller financing, paying with own stock, issuing preferential shares and bond issuances. Seller financing is frequently up for discussion in many transactions, especially regarding secondary asset where paying with shares or preferential shares is becoming more common.

GRAPH 7  
**Issued bonds** Volume of corporate bonds issued by listed property companies



Graph source: Savills

Bond issuances have been quite uncommon with the exception of Vasakronan and the large government-sponsored entities such as Akademiska Hus and Specialfastigheter, all of whom have always been active on the bond markets. The stability of companies such as the aforementioned has led to a situation where bond financing in many cases can offer lower margins than “traditional” bank financing.

More noticeable is the strong growth in bond issuances by the domestic listed property companies. In a European perspective Swedish listed property companies tend to be geared higher and as a result bond from the listed sector tend to be relatively high-yielding. Most of the bonds that have been issued are non-covered bonds typically offering a yield of 3 Mo. STIBOR + 230 – 475 basis points. The relatively high cost for the bond issuer means that bonds cannot replace bank financing but should perhaps be viewed as a mezzanine-like financing as bank lending tend to offer lower LTVs.

→ of other European markets, mainly due to stable public finances which can allow for an expansionary economic policy. Our assessment is that the risk-averse climate will result in a continued focus amongst investors towards the larger metropolitan areas and prime properties where we expect yields to remain stable.

The scarcity of bank financing continues to remain a restraint on the market, not the least for secondary assets. Some positive signals have been noted during the autumn which indicates that lending is slowly picking up pace and margins have started to drop. The lack of financing has led to a strong interest for alternative financing sources, which we expect will continue in the near future.

The market for prime assets is very strong and is likely to be dominated by domestic institutions and especially the Swedish pension funds as they tend to be risk averse and at the same

time experience less competition from investors that are dependent on leverage. The interest from foreign investors is strong but so far they have been unable to compete with domestic investors for prime offices, but they have been successful in acquiring prime retail warehousing, logistics and shopping centres.

## OUTLOOK

### Continued strong interest for prime properties in the larger metropolitan areas

- The strong focus on prime assets will likely result in an increasing yield-gap between prime and secondary assets
- External financing is likely to continue to be a problem even though investors are to an increasing extent finding alternative means of financing
- A continued strong focus on properties with secure cash-flows and strong covenants
- A slower pace on the transaction market is likely to result in smaller average deal sizes
- Increased investor focus on prime properties in favorable locations in the larger cities
- Swedish pension funds will account for a large share of the transaction activity
- Increased investor focus on prime properties in favorable locations in the larger cities.

Prime yields	Q1 2012	Q2 2012	Q3 2012
Stockholm offices	5.00%	4.75%	4.75%
Gothenburg offices	5.00%	5.00%	5.00%
Malmö offices	5.25%	5.25%	5.25%
Retail warehouse	6.00%	5.75%	5.75%
Shopping centres	5.25%	5.25%	5.25%
Logistics	6.75%	6.50%	6.50%

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