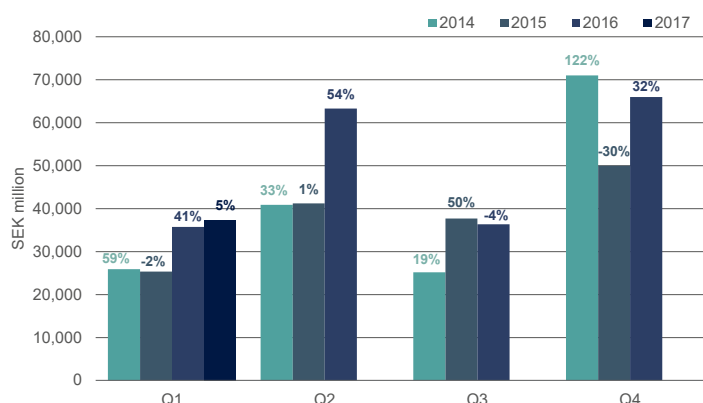


Market report Sweden Investment

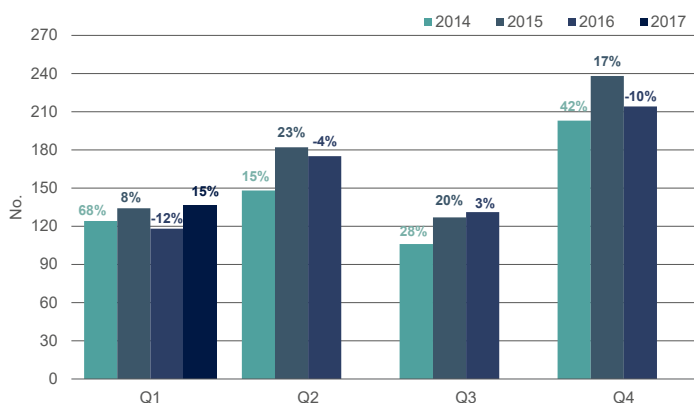
Q1 2017

GRAPH 1 **Investment volumes** Exceptionally strong first quarter of 2017



Graph source: Savills

GRAPH 2 **Number of deals** Fairly high transaction pace during the first quarter of 2017



Graph source: Savills

SUMMARY

Exceptionally strong opening of the new year

■ Despite global and political uncertainties, Sweden's economy appears fairly robust. GDP grew by 3.4% in 2016; a strong growth compared to most mature economies in Europe.

■ The investment appetite in Sweden is extremely strong and the first quarter of 2017 finished above the investment volume seen in Q1 2016.

■ Foreign investors were active during the first quarter of 2017 and accounted for 30% of the total transaction volume.

■ Office properties were the most attractive property sector during the first quarter of 2017 in relation to the

investment volume, however, storage and industrial properties, tied with residential properties, experienced the highest transaction pace.

■ The number of portfolio transactions accounted for 40% of the total number of transactions, which is an indicator of a booming market.

■ The high demand for properties has contributed to historically low yields across all property sectors and geographical markets.

“The demand for properties in Sweden is still extremely high and 2017 opened with an all-time high Q1 investment volume.” Peter Wiman, Head of Research, Savills Sweden

→ Economic background

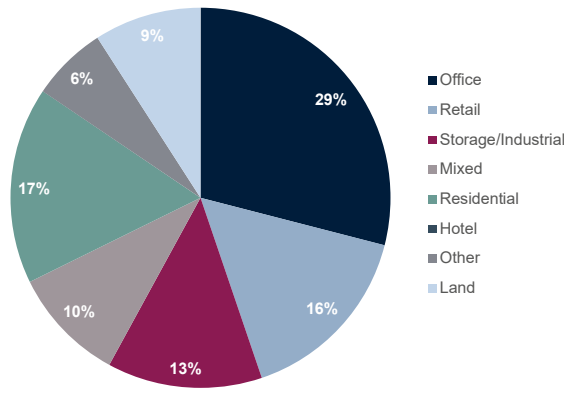
2016 was an eventful year with uncertainties such as the Brexit referendum result and the US presidential election. Although the Swedish economy slowed slightly in 2016 compared to the strong development in 2015, growth remains positive. Sweden's GDP grew by 3.4% in 2016 driven by domestic factors such as investments into housing development schemes and a high public sector consumption. The previous rapid growth in household consumption slowed somewhat during 2016 as households choose to increase their savings rather than spend.

Sweden is experiencing an all-time high population growth where the population reached 10 million inhabitants at the beginning of 2017. The rapid growth is expected to continue and the population is expected to reach 11 million by 2024. The steep population growth will be a significant element for the economic development that brings opportunities as well as challenges.

Demand for labour remains stable despite lower economic growth this year. Employment levels have seen growth since 2009 and are expected to continue to grow at a steady rate. The unemployment rate has also continued its downward trend and is currently at just under 7% and is expected to decrease further in the short-term.

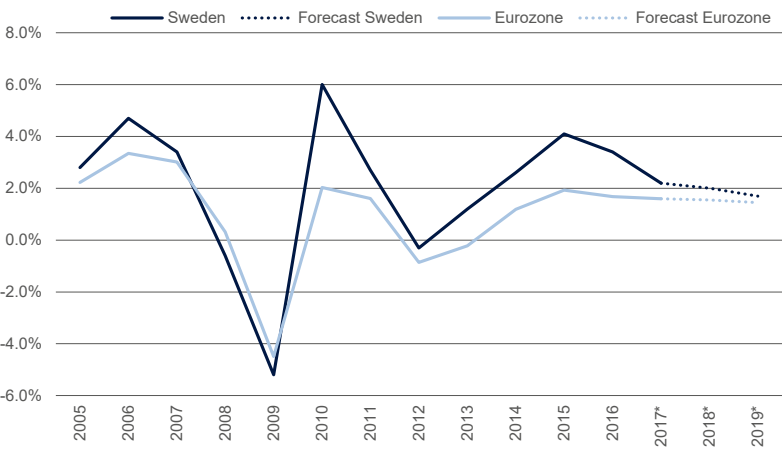
The Swedish inflation rate continued to grow towards the end of 2016 and the trend is expected to continue

GRAPH 4 Breakdown by asset class (Q1 2017)
High demand for office properties



Graph source: Savills

GRAPH 3 GDP growth & forecast Sweden is characterised by a healthy economy despite weakened growth in 2016



Graph source: NIER & Focus Economics

this year. Inflation is estimated to continue its upward trajectory but is unlikely to reach the long-term goal of 2% by the end of 2018. In order to support the inflation rate, the Bank of Sweden's monetary policy is expected to continue throughout 2017. The repo rate was left unchanged at -0.5% in February this year, and a first hike is expected to occur at the beginning of 2018.

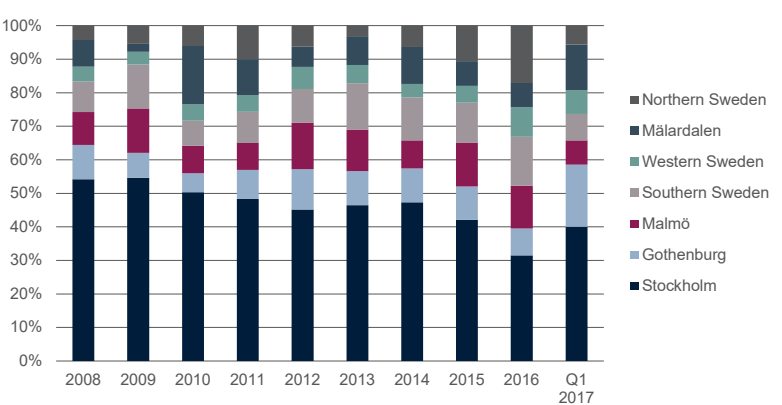
Investment activity

The first quarter of 2017 opened exceptionally well with an investment volume amounting to SEK 37.5bn (€3.9bn). The volume exceeds the Q1 2016 volume by 5%, which is a clear indicator of a continuous strong investment appetite considering that 2016 was a record year in terms

of investment levels. A total of 136 transactions were carried through during the first quarter of 2017; the highest first-quarter since 2008. Despite the high transaction pace, the large investment volume contributed to an average deal size of SEK 275m (€28.7m), 7% higher than the 10-year annual average.

Office properties were undoubtedly the favourable property sector during Q1 2017, with an investment volume amounting to SEK 11bn (€1.2bn), representing 29% of the market. Residential and retail properties were fairly even in terms of investment volume, and the sectors each represented approximately 16% of the market (Graph 4). Noteworthy was that storage and industrial properties, tied

GRAPH 5 Breakdown by location Stockholm remains the most sought after location



Graph source: Savills

“The transaction market started out strong in 2017 and both the investment volume and number of transactions marked a significant increase compared to Q1 2016.”

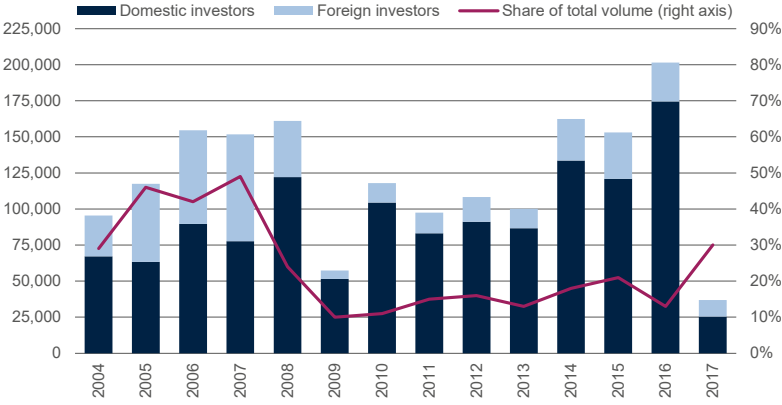
Peter Wiman, Head of Research, Savills Sweden

with residential properties, experienced the highest transaction pace across all sectors where a total of 29 transactions were carried through; 21% of the total number of transactions during the first quarter.

Foreign investors increased their activity in Sweden during the first quarter of 2017 which may be a result of that Sweden is considered a fairly secure market in world of political uncertainties. Foreign investors accounted for 30% of the total investment volume during the first quarter, which is significantly higher than the annual average of 16% during the previous five years. This is the first time since the financial crisis where foreign investors have acted as net buyers.

The share in the number of portfolio transactions carried through has had an upward trend since 2009 and reached 40% during the first quarter of 2017, normally an indicator of a booming market. The share of portfolio transactions also reached high levels of 54%, which is in line with the average over the past few years.

GRAPH 6 Breakdown by origin of investor Increased share of foreign investors



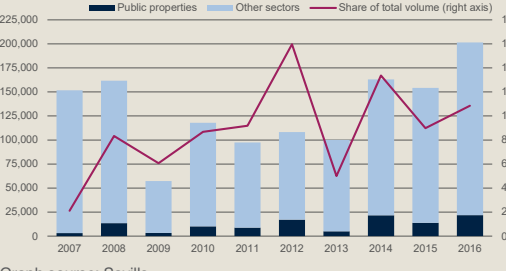
Graph source: Savills

Public properties

Increasing demand for public assets

Interest for public properties has increased drastically over the past decade, and over the past three years the sector has accounted for just over 10% of the total transaction volume. In 2016, the transaction volume for public properties amounted to SEK 22bn (€2.3bn), which was an all-time high volume for the sector.

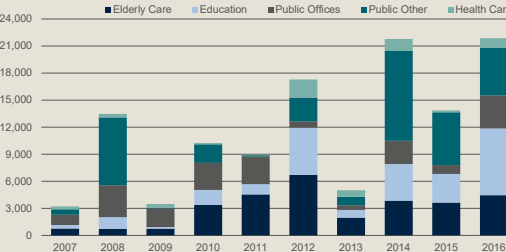
GRAPH 7 Investment volumes Increasing interest in public properties



Graph source: Savills

Demand for public properties has increased since the financial crisis in 2008 since they have less risk compared to other commercial sectors. The tenants are stable, leases are often longer and the sector is less sensitive to economic fluctuations.

GRAPH 8 Investment volumes by asset class



Graph source: Savills

Demand for public services, and thus public properties, is largely controlled by demographic changes. Over the next decade, Sweden's population is expected to grow significantly, especially the younger (0-19 years) and older (80+ years) population, which will increase demand for public properties.

Considering that 2018 is an election year, 2017 could be the last chance for many municipalities and counties to sell off public assets, which could boost investment volumes.

Outlook for the remainder of 2017

During 2017, the effects of Brexit and Trump's victory will start to become visible. In an uncertain world, Sweden has good prospects for continued strong growth. Consensus forecasts indicate a GDP growth of 2.2% in 2017 and 2.0% in 2018. Growth will mainly be driven by a pickup in exports throughout 2017-2018, but domestic drivers still dominate, including very expansion in residential construction and public sector consumption due to rapid population growth.

The strong investment appetite during 2016 has continued during the first quarter of 2017. The outlook for the rest of the year is positive and property investments are expected to remain attractive. The historically low interest rate is expected to continue and traditional property market fundamentals look positive. Furthermore, since last year's transaction market was characterised by major portfolio transactions, it

is likely that many companies will refine their property holdings during coming years. Most risks are global and domestic risks consist of possible legislative changes.

Prime yields across most property sectors are expected to remain stable, however, given the amount of capital seeking property investments and the favourable market situation, it is likely that we will see new lows in some sectors or geographical markets. Due to the lack of supply for prime assets, investors will continue to look towards secondary markets when chasing higher returns. We expect there is still room for secondary yields to harden and the gap between prime and secondary yields is likely to decrease. ■

OUTLOOK

Shortage of prime assets is likely to lead to a yield compression between prime and secondary assets

■ The transaction volume is expected to remain high across all property sectors.

■ Prime assets in Stockholm, Gothenburg and Malmö are still favoured, but the substantial lack of supply will open up for a stronger market for secondary assets.

■ Public assets are in high demand due to the perceived lower risk and capital targeting public assets is increasing.

■ Retail and logistics have not yet reached the yield levels seen prior to the 2008 financial crisis, so these sectors could provide higher returns and yields are likely to harden in these sectors.

“New proposed tax reforms could have a negative impact on the transaction market, but there are uncertainties whether these will have political support and likely that no changes will take place until H2 2018.” Peter Wiman, Head of Research, Savills Sweden

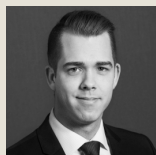
Prime yields	Q1 2016	Q3 2016	Q1 2017
Stockholm offices	3.75%	3.75%	3.50%
Gothenburg offices	4.25%	4.00%	4.00%
Malmö offices	4.25%	4.25%	4.25%
Retail warehouse	5.25%	5.25%	5.25%
Shopping centres	4.75%	4.50%	4.00%
Logistics	5.50%	5.50%	5.40%

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