The Greater Copenhagen property market 2000

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Introduction

Copenhagen is not only a growing city with a strong and dynamic property market; it is the centre of a region undergoing a structural change.

The development of the region into a north European centre is taking place now. The bridge to Malmoe, Sweden, creates one single metropolitan area with some 3 million inhabitants, with a leading international position within growth sectors such as the IT industry, telecommunications, the pharmaceutical sector and distribution.

Major new development areas offer opportunities and challenges for developers, investors and users. However, the attractions of new development schemes in prime locations will in future have a negative impact on older buildings and areas.

The occupational market continues its positive trend with an overall office vacancy rate at a 10-year low. Almost all new developments are, however, on a pre-let basis and there is no reason to believe that the market will be overdeveloped.

Also the property investment market remains strong. Yields have come under downward pressure, but relative to other mature European markets, yields are still competitive.

This Market Report by Sadolin & Albæk offers you an updated overview of the Greater Copenhagen property market, including letting and investment market information and transactions for all sectors and submarkets.

For their important input to the Market Report Sadolin & Albæk would like to thank

- The Danish Ministry of the Environment, National Planning Department
- Den Danske Bank, Economics Department
- Copenhagen Capacity, Agency for Investment and Development of Trade and Industry in Greater Copenhagen.

Further, for their contribution to a brief Scandinavian overview, Sadolin & Albæk would like to thank the members of our new Scandinavian partnership

- NewSec AB, Stockholm

- DnB Næringsmegling, Oslo

The Market Report has been compiled to guide you in planning and decision-making related to property leasing and investment and is based on material and market information that we believe to be reliable. Whilst every effort has been made to ensure the accuracy and completeness of the Market Report, Sadolin & Albæk cannot offer any warranty that factual errors may not have occurred.

Property decisions should always be based on in-depth analysis and professional advice. Sadolin & Albæk would be delighted to assist you in any property-related context.

Copenhagen, February 2000

Sadolin & Albæk • ONCOR International

Sadolin & Albæk

For more than 35 years Sadolin & Albæk has been a leading consulting firm within the field of commercial real estate in Greater Copenhagen and Denmark.

With the aim of maintaining this position, our highly specialised organisation continuously strives to enhance the quality of our services in response to increasing market needs.

Investment sales and acquisitions	**Office and mixed-use properties**
	Retail/Shopping Centres
	Industrial/Distribution
	Residential Complexes
	Hotels
	Land/Development Projects

Mediating the purchase and sale of major properties on a fully confidential basis has always been a speciality of Sadolin & Albæk. A close contact to the most important decision makers within the commercial property investment community enables us to mediate even the largest property investment deals off-market.

Investment consulting	**Portfolio analysis**
	Portfolio strategies

In response to the increasing focus on enhancing returns on investment property portfolios, Sadolin & Albæk are continuously developing our tools and skills within investment consulting services. Our advanced forecasting models enable us to offer a proactive approach to property portfolio management. That means developing, redeveloping, buying and selling with the right timing.

Commercial property leasing	Landlord representation Tenant representation

We acknowledge the fact that understanding the needs of property users is a key to leasing services. In today's market a user does not only want square meters – he wants flexible, efficient and cost-effective premises, suiting the exact needs of his organisation now and in future.

Our tenant representation service concept includes location and space planning, quality standard considerations, identification of potential buildings and sites, negotiations with building owners, land owners, developers and public authorities and project finance.

Corporate real estate services	Space utilisation Disposal of excess space Real estate exposure management Sale and leasebacks

Efficient space utilisation and the management of property exposure are becoming increasingly important issues for major property users. We offer our advisory services concerning cost-efficient use of space, and we are able to advise on all financial techniques reducing corporate real-estate costs and exposure.

Valuations

Sadolin & Albæk annually conduct more than 250 valuations of commercial properties for an extensive client base composed of investors, owner-occupiers, government and municipal bodies as well as major international banks and property-leasing companies.

Development consulting	**Development and redevelopment strategies** **Feasibility studies**

Sadolin & Albæk are neither developers, architects, nor building engineers. But we have a proactive market approach to real-estate development and redevelopment. And, after all, the key to a successful property development is a thorough understanding of the occupational market – where it is at today and where it will be at in future.

Research	**Market studies** **Urban development studies**

Every single piece of advice to every single client should be based on an in-depth market understanding – and thus extensive market research. It is the specific aim of our organisation to maintain research capabilities second-to-none in our market.

Our research staffs have conducted market studies for major international investors and banks as well as urban development consultancy for governmental, regional and municipal authorities.

Scandinavian real estate services	**NewSec AB, Sweden** **DnB Næringsmegling AS, Norway**

Sadolin & Albæk have expert knowledge of our home market. In acknowledgement, however, of the regionalisation process in the Scandinavian countries, we have established a unique partnership with leading commercial property-service providers in Sweden and in Norway.

Based in Stockholm and with branches in Gothenburg and Malmoe, NewSec AB is a leading firm of real estate agents and surveyors in Sweden. And our Norwegian partner, DnB Næringsmegling AS – a subsidiary of the largest commercial bank in Norway – is a dominant property consultant in both Oslo and Bergen.

Worldwide real estate services	**ONCOR International**

For almost 15 years Sadolin & Albæk has been a member of ONCOR International, one of the largest global organisations of highly professional companies within commercial property consulting.

Our international organisation enables us to assist our clients not only in our local market, but also in virtually every other significant market around the globe.

Further, our daily contact with real estate professionals from all important parts of the world provides our organisation with essential input on global trends within our industry, enabling us to offer property-consulting services of the highest international standards.

Through our associates in ONCOR International, Sadolin & Albæk is represented in the USA, Canada, South America, South Africa, the UK, Germany, France, Spain, Italy, Austria, Switzerland, Holland, Belgium, the Czech Republic, Hungary, Poland and Russia. In Asia we have associates in all important markets, including China, Japan, Hong Kong and Indonesia.


NORWAY
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SWEDEN
Stockholm
DENMARK
Copenhagen
Malmoe
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35
70
km

Scandinavian and regional market overview

Copenhagen / Malmoe

- **The birth of a region with 3 million inhabitants**
- **Massive investments in infrastructure**
- **Strong position within high-tech industries and distribution**

The Øresund motorway and railway bridge between Copenhagen and Malmoe, Sweden, open in 2000. This will over the next years create one integrated market – both in terms of labour, education, hotel and retail catchment, and property.

Also, the region has a solid and highly educated workforce, a strong concentration of companies within the IT sector, telecommunications, the pharmaceutical industry and biotechnology. At the same time, Copenhagen / Malmoe has a large concentration of universities and research institutions and a highly developed infrastructure.

The investments in infrastructure include a massive expansion of Copenhagen International Airport, currently ranked as the fourth largest airport on the European continent. From the airport and from the Ørestad development scheme, located near the airport, the city centres in both Copenhagen and Malmoe may be reached by train or by car within 15 minutes.

The birth of this new region creates new opportunities and new challenges for the business community and for the property sector.

Several Scandinavian and international companies are in the process of consolidating activities in the region. New regional headquarters, research and development facilities as well as distribution warehouses are thus established in the region.

Property developers and investors realise the potential of this unified region. Already years ago, *Skanska* decided to consolidate its regional development activities. Cross-border investments in 1999 included Swedish *Diligentia* who has invested more than DKK 500 million in commercial property in Copenhagen, and Danish property company *EjendomsSelskabet Norden* who has acquired a large portfolio of residential investment properties in Malmoe.

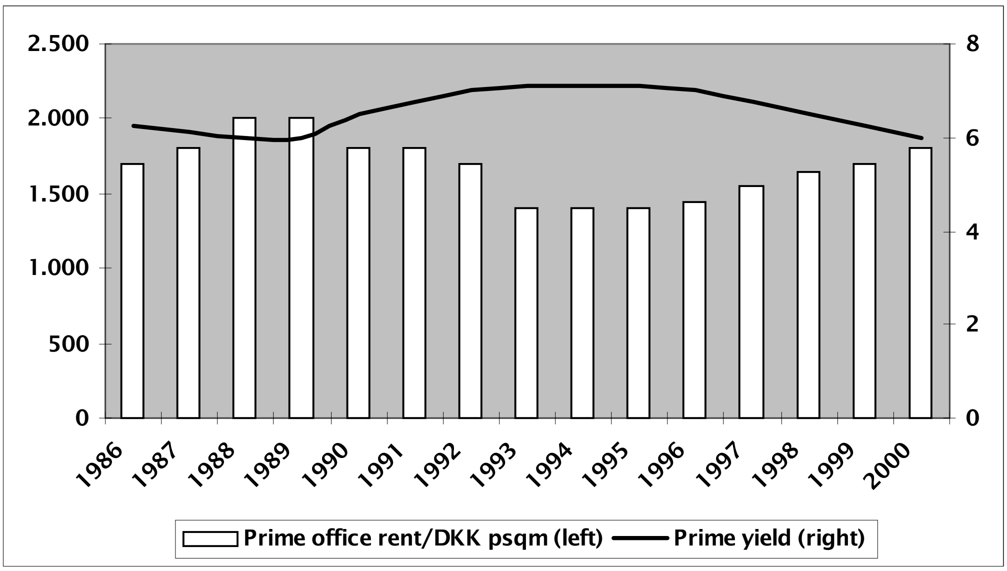
The commercial property market in Malmoe

The fixed link between Copenhagen and Malmoe, combined with a massive expansion of centres for higher education, will transform the city of Malmoe from a traditional city dominated by rather heavy industry into an important contribution to the region's status as a high-tech centre. This will also have a major impact on the commercial property market in the city.

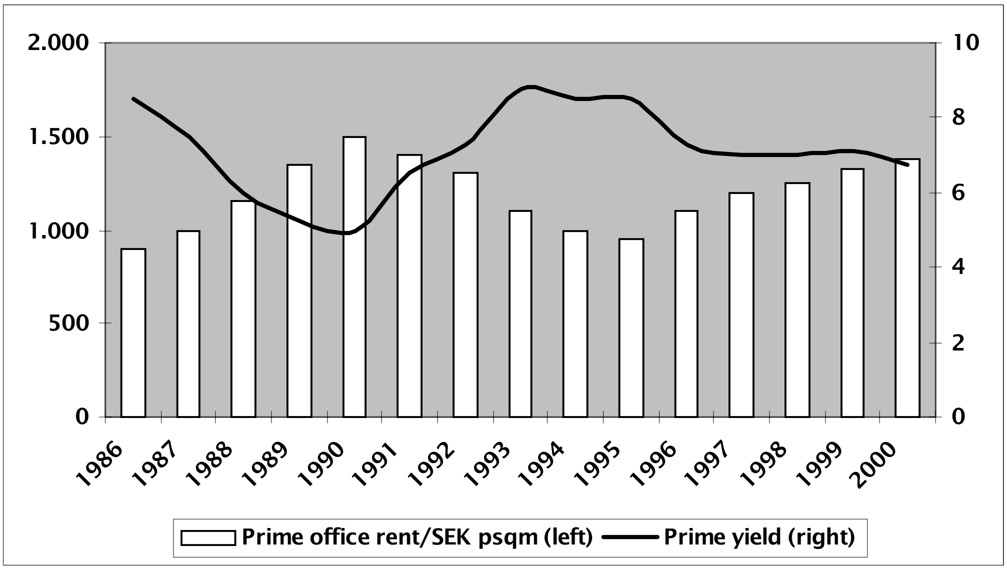
The prime office rent in Malmoe is currently SEK 1,300-1,700 per sqm per annum, whereas the rent for more secondary office space typically amounts to SEK 800-1,100. Both figures are some 20 percent below the level in Copenhagen.

Today, the prime net initial yield is approximately 6.25 percent.

Development in rents and yields in Copenhagen



Development in rents and yields in Malmoe



Stockholm

- **With 1.6 million inhabitants Stockholm is the commercial and administrative centre of Sweden**
- **Current office vacancy rate stands at 2 percent within CBD and 5 percent overall**
- **Prime office rent SEK 3,500 per sqm per annum**
- **Prime yield 5.5 percent**

The Stockholm property market rock-bottomed in 1993, but has since then had a remarkably strong recovery, fuelled by a generally positive economic development in Swedish economy.

Prime office rents within the Stockholm Central Business District (CBD) – in the so-called "Golden Triangle", where the vacancy rate is a mere 2 percent – currently stand at SEK 3,000-3,700 per sqm per annum, whereas prime rents in other parts of the inner city are SEK 1,800-2,500. Suburban rents are considerably lower, down to SEK 1,000.

The office and retail property investment market is extremely liquid. The prime yield in the "Golden Triangle" currently stands at 5.5 percent, whereas office properties in other parts of the inner city are traded at around 6.25 percent.

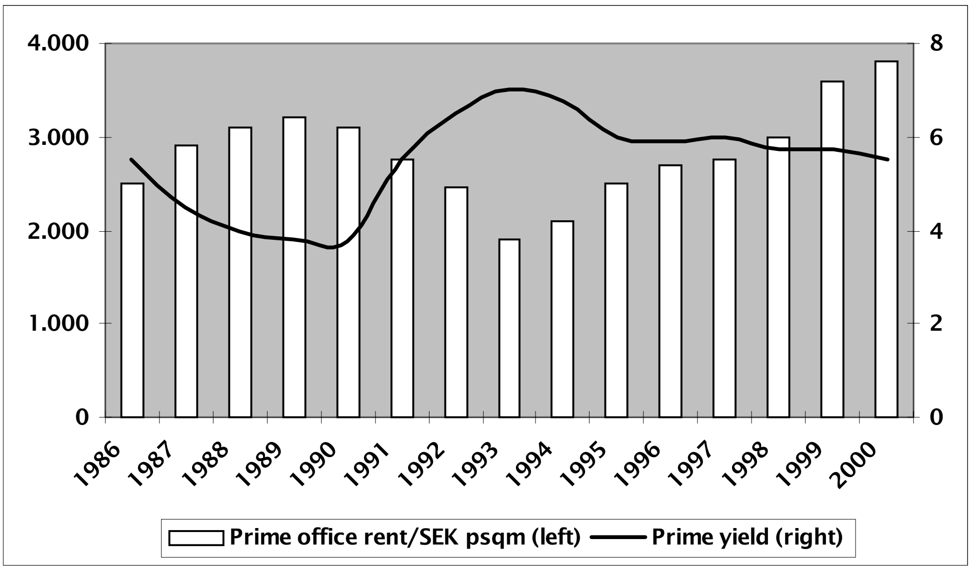
Swedish economy

Swedish economy experienced a strong GDP growth in 1999, i.e. a 3.6 percent increase. However, growth is estimated to slow down slightly to 3.2-3.3 percent in 2000-2001.

The current unemployment rate is 5.5 percent, but unemployment is expected to fall to 5.1 percent in 2000 and 4.5 percent in 2001. Consequently, the labour market needs to become more flexible if major wage increases are to be avoided.

Current inflation is very low with consumer prices rising by only 0.4 percent in 1999. Consumer prices are expected to rise by 1.0 percent in 2000 and 1.6 percent in 2001, both figures still reflecting a very moderate inflationary trend.

Development in rents and yields in Stockholm



Oslo

- **With 0.5 million inhabitants the largest city in Norway**
- **Current office vacancy rate stands at 3.5 percent**
- **Prime office rent NOK 2,500 per sqm per annum**
- **Prime yield 7.5 percent**

The greater Oslo property market is the largest and most liquid property market in Norway. An exceptional boom in Norwegian economy in 1995-1998 sustained a strong recovery of the property market, but the market is now in a consolidation phase, despite a continuously buoyant demand for office space.

The office vacancy rate currently stands at 3.5 percent. Prime rents seem to have stabilised at a level of NOK 2,500 per sqm per annum, but for high-quality space in the most prestigious locations, a light rise in rents is anticipated.

Yields in prime locations are rather high, typically ranging between 7.5 and 8.5 percent, resulting in a positive yield gap of more than 100 bp. A slightly decreasing prime yield, down to 7 percent, is, however, foreseen.

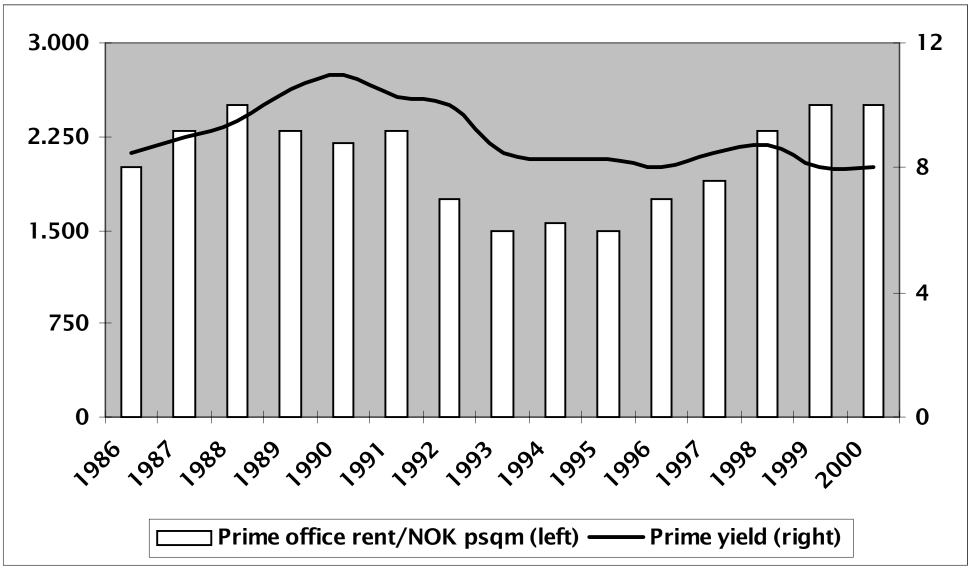
Norwegian economy

The Norwegian economy is currently cooling off after a period with exceptional growth, i.e. in excess of 3 percent per year. The present annual GDP growth is around 1 percent, which is believed to normalise the macroeconomic climate in the country. With households, enterprises and banks in a much healthier financial position than in the late 1980s, there are no fears of a pronounced recession, merely a limited growth pause.

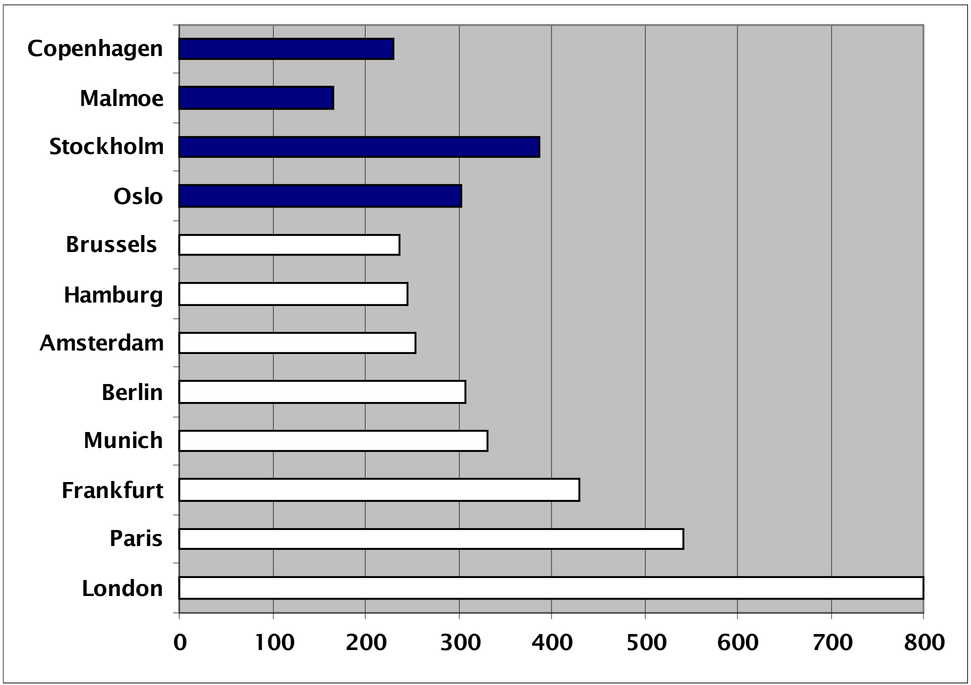
Employment figures have been increasing and in 1999 the unemployment rate was only 3.3 percent. The unemployment rate is expected to creep up to some 3.8

percent in 2000, but bottleneck problems in the labour market may propel wage rises to almost 5 percent per annum. Current annual inflation is some 2.3-2.4 percent.

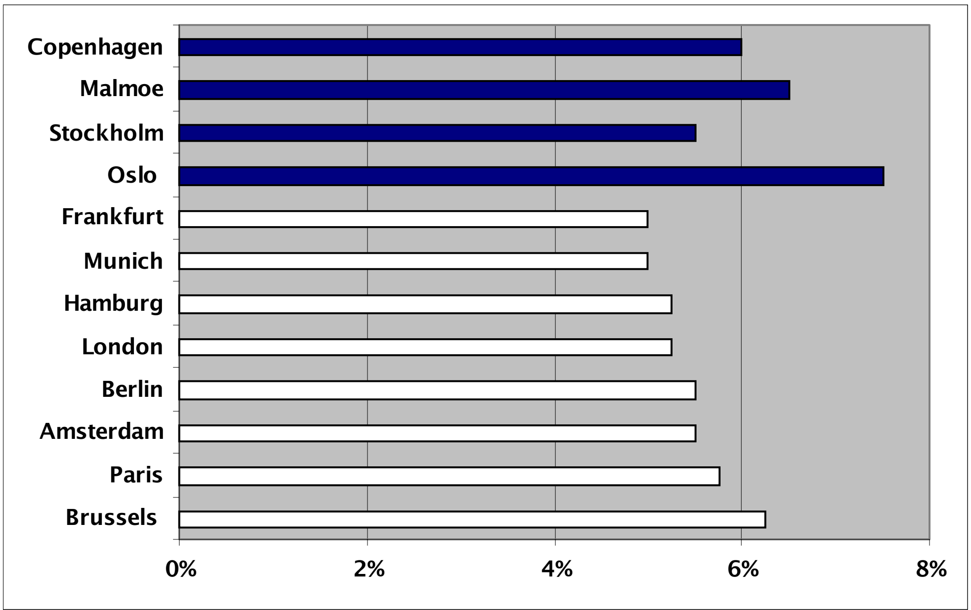
Development in rents and yields in Oslo



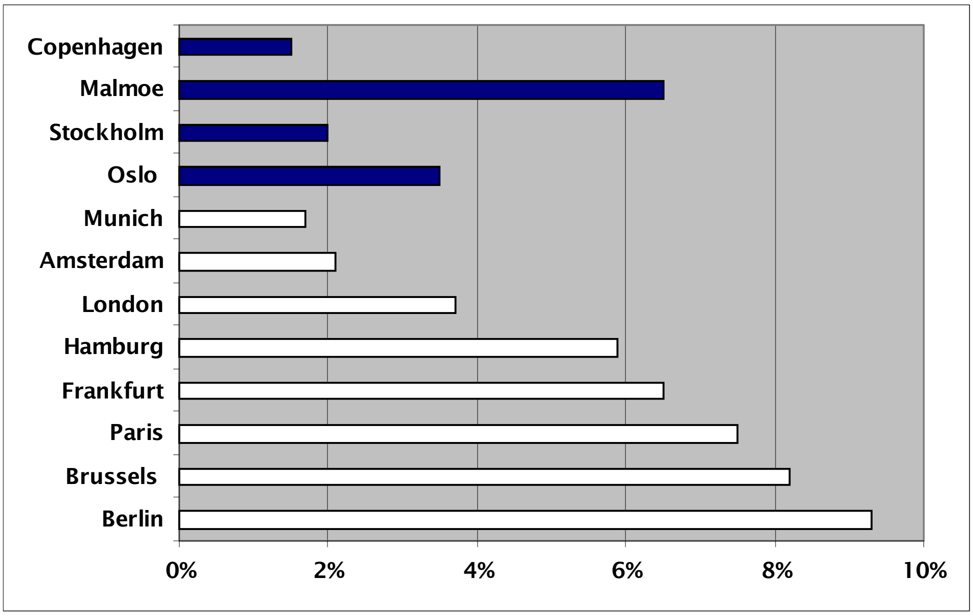
Prime office rents (euro per sqm per annum)



Prime investment yields



Prime office, vacancy rate



Market expectations

	Vacancy rate	Prime rent	Yield	Investment demand
Copenhagen	→	↗	→	↗
Malmö	↘	↗	→	→
Stockholm	→	↗	→	↗
Oslo	→	↗	→	→

Danish economy

- **Moderate growth expected for the next couple of years**
- **Positive development in exports gives surplus on the balance of payments**
- **Decreasing unemployment gives Budget surplus**
- **Denmark expected to join "Euroland" in 2001 or 2002**

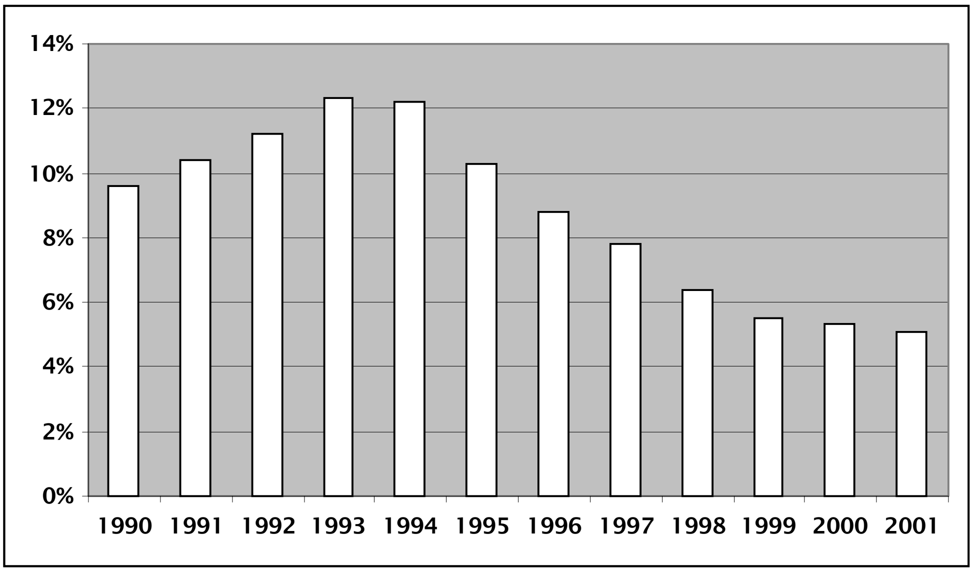
Danish economy is set for lower growth than over the last five years. Domestic demand has since 1998 been dampened by a fiscal package, which reduced GDP growth to only 1.2 percent in 1999. The stronger economic growth within "Euroland" in 2000 and 2001 will, however, benefit Danish exports, and GDP growth in 2000 and 2001 is expected to be 2.1 percent and 2.2 percent, respectively.

Labour market

The economic slowdown means that employment figures do not increase as much as over the last couple of years. Unemployment is, however, still expected to fall from some 5.5 percent in 1999 to 5.1 percent in 2001.

The low level of unemployment has caused bottleneck problems on the labour market, resulting in wage rises. The rise in wages is expected to stabilise at an annual figure of 4.0 percent in 2000 and 2001.

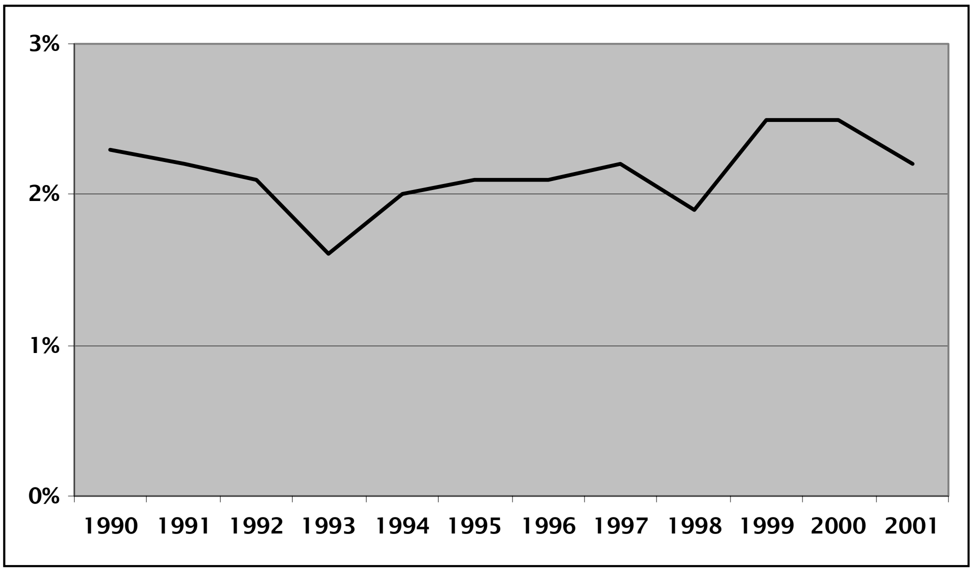
Unemployment rate



Inflation

In 1999 and 2000 the inflation rate is expected to be around 2.5 percent. This rise in inflation is, however, considered to be temporary, caused by an increase in wages and higher commodity prices. In 2001, inflation is expected to be reduced to approximately 2.2 percent.

Danish inflation



Interest rates

Interest rates increased in 1999 and currently stand at approximately 6 percent for 10-year government bonds. This increase is well in line with the development within "Euroland", and the yield spread between the Danish krone and the euro continues to be some 20-30 bp.

Denmark and the euro

Like the United Kingdom and Sweden, Denmark has chosen not to adopt the European single currency, the euro. However, Denmark has entered into a bilateral agreement with "Euroland" that more or less fixes the value of the Danish krone to the euro.

Most analysts expect that a referendum held in 2001 will be in favour of Denmark joining "Euroland".

Foreign trade, balance of payments and government finances

The growth in major European economies has a positive influence on the Danish export trade, which is expected to increase by 4.3 percent in 2000 and 4.1 percent in 2001.

After years with a positive balance of payments, the current account showed a deficit in 1998. In 1999, 2000 and 2001 the current account is, however, again expected to be positive.

Government finances have improved in response to the low level of unemployment and are estimated to show a surplus of some 0.3 percent of GDP in 2000 and 2001 – exactly as in 1999.

The Sadolin & Albæk property price index

- **Average price increase of 12 percent in 1999**

- **The rise in commercial property prices greater than expected**

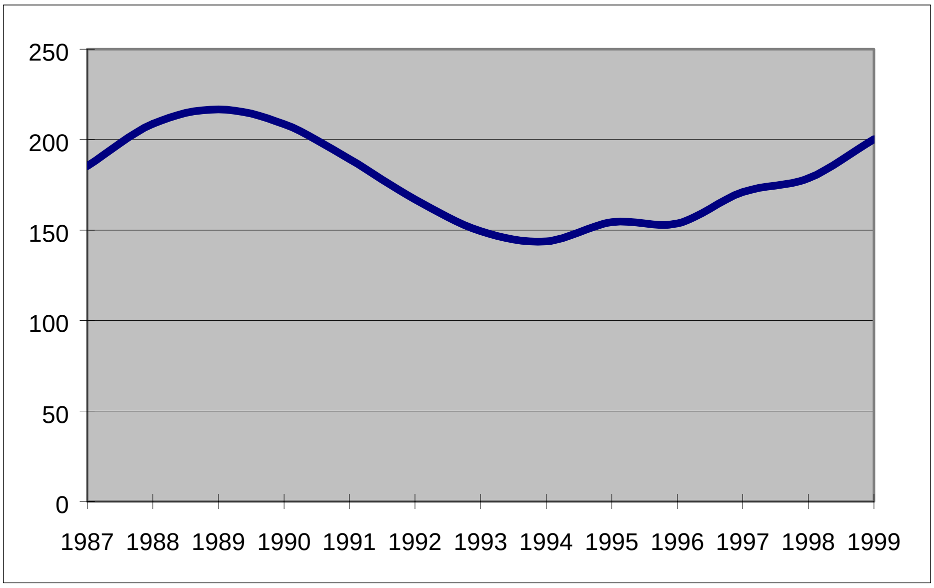
- **Moderate growth in Danish economy expected to put a dampener on the continued rise in commercial property prices**

The Sadolin & Albæk property price index provides evidence of a much steeper rise in commercial property prices in the Greater Copenhagen area in 1999 than was expected in early 1999. Average commercial property prices thus increased by as much as 12 percent during the year.

However, commercial properties have not yet regained their peak value of 1989. Since the market bottomed out in 1994, commercial property has experienced an average nominal value increase of approximately 40 percent.

Moderate growth in Danish economy is expected to result in a reduced and stabilised increase in commercial property prices. Nevertheless, the regionalisation process described in the introduction to this Market Report has boosted domestic and international demand for commercial property in the area, resulting in price increases.

Sadolin & Albæk property price index **(Index 100 = Q3 1984)**



Model and approach

The Sadolin & Albæk property price index is a hedonic multiple regression analysis, based on an empirical analysis of collected data on approximately 650 property sales and property evaluations in the Greater Copenhagen area, in which Sadolin & Albæk have been involved. All types of commercial property are covered in the model, but fixed implicit prices for the various property characteristics, mainly location, use, state and condition/quality, suitability/rationality and economies of scale, are applied as a corrective measure to account for the difference between individual properties.

Trends in the Greater Copenhagen office market

- **Absorption remains positive, but tenants are frustrated by the lack of available buildings, ready for occupation**

- **Overall vacancy rate down to 2.3 percent - a 10-year low**

- **Rents still heading upwards**

- **New construction increasing, but mainly on a pre-let basis**

Despite a surge in demand, net absorption of office space dropped by 50 percent from almost 250,000 sqm in 1997 to 120,000 sqm in 1998. The overall office vacancy rate has been reduced to a mere 2.3 percent, and office tenants needing more than 5,000 sqm are unable to find suitable space in the market.

Although construction figures for 1998 remain relatively low with some 80,000 sqm of completed construction, new construction is gaining momentum, mainly on a pre-let basis. Thus the stock of completed new space will increase significantly over the next years.

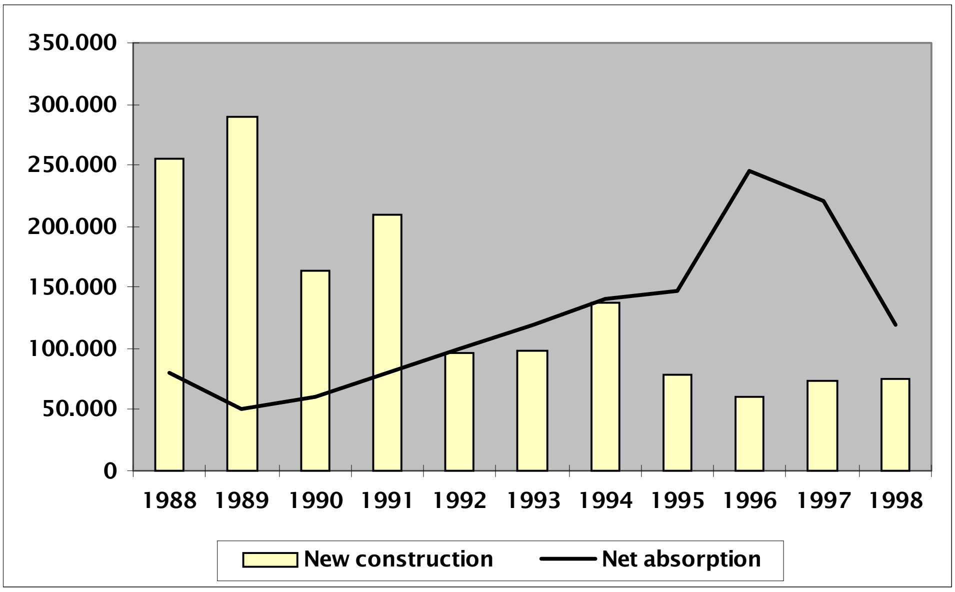
Prime rents continue to increase at a pace exceeding the inflation rate, and the prime office rent is now around DKK 1,700 per sqm per annum. Most tenants are, however, still reluctant to commit to new leases at a rent in excess of DKK 1,500.

The Ørestad development scheme

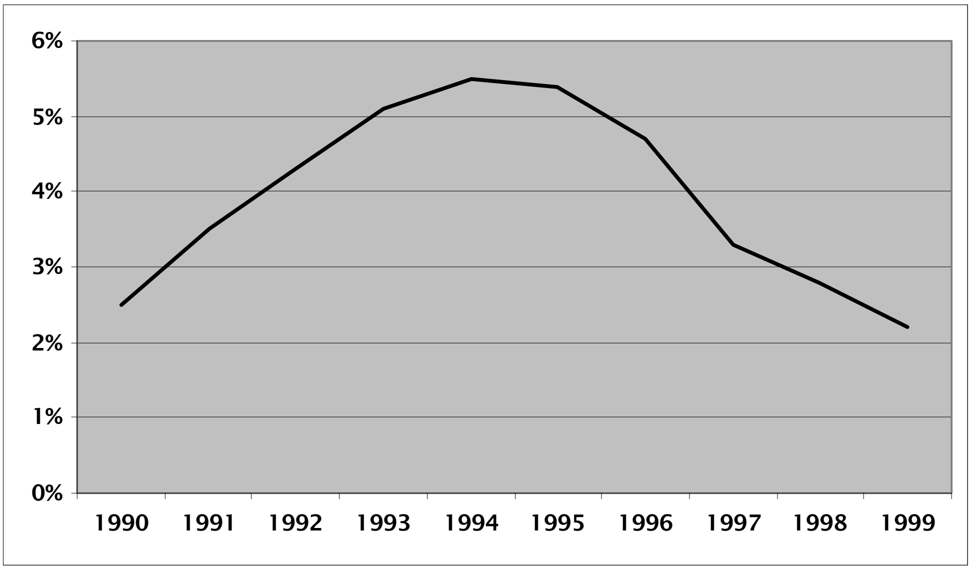
The Ørestad development scheme, located on a green-field site between the city centre and Copenhagen International Airport and comprising 1.8 million sqm of commercial construction possibility, should be considered an important factor in stabilising the level of prime rents. Serviced by a new metro connection to the city, direct motorway access and a train link via the bridge to Sweden, the Ørestad development area enjoys excellent infrastructure facilities.

Recent commitments to the Ørestad include 110,000 sqm for the *Danish National Broadcasting Corporation*, and some 12,000 sqm for pharmaceutical company *Ferring*.

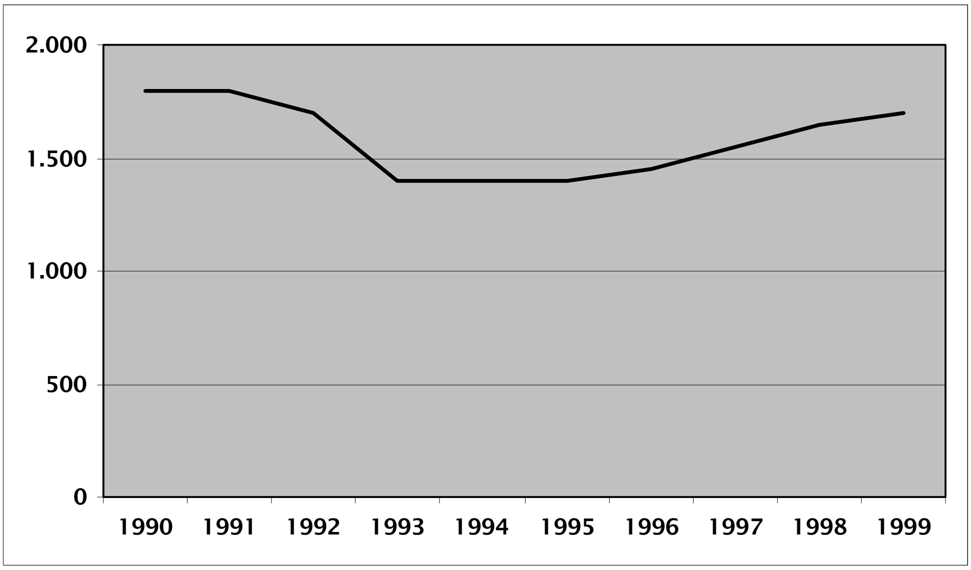
Net absorption and completed construction (sqm office space)



Overall office vacancy rate



Prime office rent (DKK/sqm/annum)



The Central Business District office market

- **No available office buildings in excess of 5,000 sqm of space**

- **Number of available sites for new construction in the harbour areas drying up**

- **Prime rents still edging upwards**

The Copenhagen Central Business District (CBD), comprising some 2,800,000 sqm of office space, currently enjoys a vacancy rate of below 2 percent, and there is no available office building in excess of 5,000 sqm of space. Further, the number of available sites for new construction in the central harbour areas is drying up. Hence the CBD area is being expanded to the south, along Kalvebod Brygge, developed by *Skanska,* and to the southeast on the island of Amager where the *National Association of Local Authorities* (Kommunernes Landsforening) and the *Union of Commercial and Clerical Employees in Denmark* (HK) both have acquired sites for new office developments for owner-occupation, totalling some 25,000 sqm.

In addition to this, on the western edge of the CBD, property company *EjendomsSelskabet Norden* has acquired the former Copenhagen Municipal Hospital (Kommunehospitalet) where an area of some 60,000 sqm is to be converted into office and residential space.

Rental rates in the existing stock remain rather flat, whereas rents for new prime office developments and redevelopments continue their upward trend, reflecting a high demand for up-to-date and flexible office space in prime locations.

Copenhagen CBD may be subdivided into a number of office location areas. For rental levels please see below.

(1) The Government District around the Danish Parliament
Governmental departments, etc. exclusively occupy this central part of Copenhagen. Thus, an office letting market does not exist in this part of the city.

(2) The pedestrian area

This part of medieval Copenhagen is the most prestigious retail location. Offices are generally minor lot sizes, located on upper floors in the older buildings and this area should not be considered a prime office location. Virtually no parking facilities are available in this area.

(3) The Banking District

This area, just north of the Government District, accommodates the Danish Central Bank as well as the head office of Denmark's largest bank, Den Danske Bank. Especially Holmens Kanal and Kongens Nytorv are considered prestigious office locations, primarily for banks and other financial institutions. In addition to this, government institutions unable to find premises within the Government District tend to locate in this area.

(4) Frederiksstad

Located around the Queen's Castle of Amalienborg, to the north of medieval Copenhagen, Frederiksstad is traditionally considered a significant and prestigious office area within CBD. The office stock generally consists of period mansion buildings or palace style buildings, many of which renovated to high standards.

Law firms, financial institutions, shipping companies and organisations traditionally dominate the area.

(5) The Rosenborg area

This centrally located office area, immediately by the pedestrian streets and enjoying easy access from the Nørreport Train Station, remains a good office location for a broad range of tenants, including the media, banks, governmental and semi-governmental organisations and embassies. A major advantage of this area is the availability of larger lot sizes of relatively up-to-date first-class office space with adequate parking facilities.

(6) The City Hall and Central Station area

This area was to a large extent developed in the 1960s and thus contains a considerable number of large-scale, quite up-to-date buildings with underground parking facilities.

Major occupiers are law firms, chartered accountants, organisations, including trade unions, and financial institutions.

Recent transactions include *Deloitte & Touche* (3,000 sqm) and the *Ministry of Justice* (3,000 sqm).

(7) The Harbour areas

As the harbour activities have moved out of the Copenhagen inner harbour, highly prestigious first-class development areas have emerged. Recent lettings in the north harbour include *Lundbeck Overseas* and *Maersk Group*, and in the south harbour law firm *Flagstad Lund Elmer*.

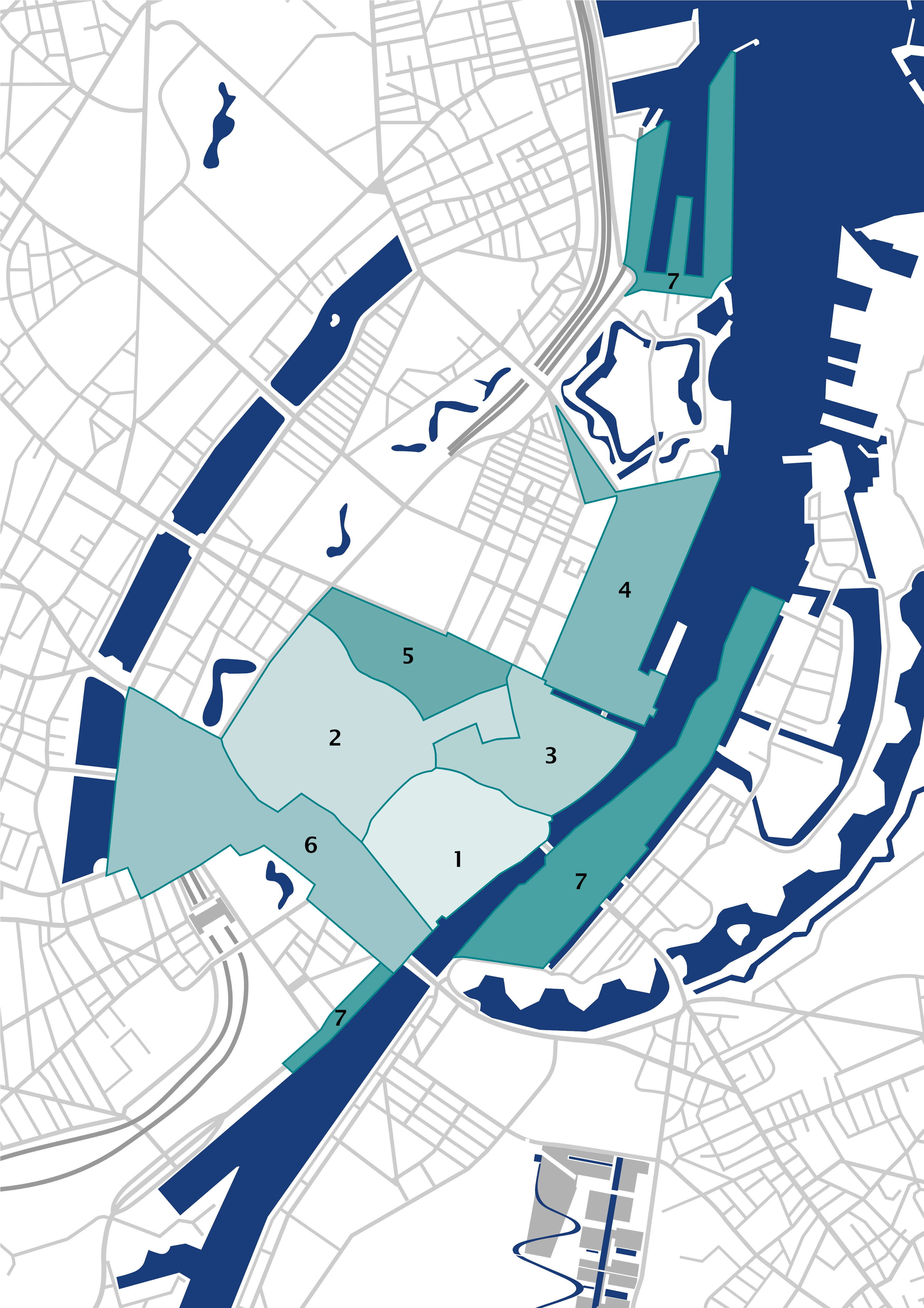
On the former naval base, Holmen, the letting market was extremely buoyant in 1999, with *Leo Burnett* and a subsidiary of *Thorn EMI* each taking some 2,500 sqm.

Rents

Prime rental levels		**(DKK/sqm/annum)**			**Change**
	1996	**1997**	**1998**	**1999**	**1998-99**
1 The Government District	N/A	N/A	N/A	**N/A**	**N/A**
2 The pedestrian area	1,050	1,100	1,150	**1,150**	**0%**
3 The Banking District	1,400	1,500	1,500	**1,500**	**0%**
4 Frederiksstaden	1,300	1,400	1,400	**1,400**	**0%**
5 The Rosenborg area	1,350	1,350	1,350	**1,400**	**4%**
6 The City Hall and Central Station area	1,500	1,500	1,500	**1,500**	**0%**
7 The Harbour areas	1,500	1,600	1,650	**1,700**	**3%**

Average rental levels (DKK/sqm/annum)

	1996	1997	1998	1999	Change 1998-99
1 The Government District	N/A	N/A	N/A	**N/A**	**N/A**
2 The pedestrian area	800	850	875	**950**	**9%**
3 The Banking District	1,100	1,100	1,200	**1,200**	**0%**
4 Frederiksstaden	1,050	1,100	1,150	**1,150**	**0%**
5 The Rosenborg area	950	1,000	1,000	**1,050**	**5%**
6 The City Hall and Central Station area	1,100	1,200	1,200	**1,200**	**0%**
7 The Harbour areas	1,250	1,350	1,350	**1,400**	**4%**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Office areas outside CBD and suburban office areas

- **Occupiers look for quality**
- **No Class A buildings exceeding 5,000 sqm available**
- **New developments purely on a pre-let basis**

Of a total stock of almost 10,500,000 sqm of office space in the region, more than 70 percent are located outside CBD and in suburban areas.

Also in suburban areas most office occupiers look for quality office space, and mainly efficient buildings with a floor area of more than 5,000 sqm are in demand. The demand is, however, frustrated by a lack of available opportunities, and most transactions include pre-letting of new development projects.

Prime rents in suburban areas are reported in the most attractive locations north of the city where rents are almost comparable with CBD rents. However, also in preferred areas to the south of the city rents have surged.

The most important locations are listed below. Also, for typical rental levels for the various districts please see below.

(1) Østerbro
The area immediately north of the city centre remains a popular office location, dominated by embassies, non-profit organisations and companies within the service industries, including management consultants, etc.

The area enjoys easy access by car from the upmarket residential areas north of Copenhagen.

Recent lettings include *Gallup* with some 4,500 sqm in a rather secondary location, and *Andersen Consulting*, who has committed to a pre-letting in the harbour, totalling some 4,500 sqm.

(2) Nørrebro/Frederiksberg

The Nørrebro and Frederiksberg areas to the northwest and west of CBD are mixed-use districts with extensive residential areas of quite diverse quality and various office locations scattered over the area.

The office stock in this area has a diverse quality and age. In today's market it should be considered a secondary office location.

(3) Lyngby/Hellerup

The Lyngby and Hellerup areas, some 10 kilometres north of the city of Copenhagen, are increasingly becoming the most important and preferred suburban office locations. Office buildings and developments, close to attractive residential areas and excellent retail facilities, enjoy rental levels comparable to CBD. High-class office buildings with sufficient parking facilities and easily accessible by car and by train in this area are extremely popular with major office occupiers.

Typical occupiers include the high-tech sector, engineering and construction companies, insurers as well as other large-scale office users.

Development activity in the area remains strong with new commitments for *PA Consulting* and construction company *NCC* (12,000 sqm) in the prime area Tuborg Harbour, and *Electrolux* (4,500 sqm) as well as *Thrane & Thrane* (13,000 sqm) in a slightly more secondary area in Lyngby.

(4) The north axis

Along the north axis, following the motorway to Elsinore, there are a number of office developments in Vedbæk, Hørsholm and Kokkedal, mostly dating from the 1980s. Some of these developments may be considered inadequately planned and in secondary location, but due to competitive terms they are able to attract good tenant interest.

(5) Birkerød/Allerød

The axis Copenhagen/Hillerød includes major office areas of diverse quality, ranging from rather outdated office buildings from the 1960s and 1970s in Birkerød to up-to-date high-quality buildings.

This axis is a preferred location for the IT-sector, albeit the current demand is frustrated by the lack of office development opportunities due to new restrictions on office developments on sites more that 500 meters from a train station. Among recent transactions should be mentioned a pre-letting of some 5,000 sqm to *Q8 (Kuwait Petroleum)* in Birkerød.

(6) Herlev/Ballerup

By far the most important office market in Herlev/Ballerup is the Lautruppark area – originally developed in the 1970s as "The Silicon Valley" of Copenhagen, yet remaining a preferred office location for large-scale high-tech sector users as well as insurance companies.

(7) The west axis

Vast industrial estates with adjoining office facilities were developed in Glostrup and Brøndby in the 1960s, whereas Albertslund and (especially) Høje Taastrup were developed in the 1980s as industrial and back-office locations.

Especially Glostrup has over the last couple of years regained a position as a good mid-price suburban office location, benefiting from excellent access by both private and public means of transportation. Transactions in 1999 include new Nordic headquarters for *L'Oreal* (6,800 sqm) and *MCI Worldcom* (3,500 sqm).

(8) Valby

In the 1980s, major development schemes were planned for this former mixed residential and outdated industrial area. Only few projects were, however, in fact carried through and this area has certainly lost its position as a preferred office location in the vicinity of Copenhagen CBD.

It is unlikely that this area will ever be developed as originally planned.

(9) The South Harbour (Sydhavnen)

The South Harbour areas, close to CBD and with excellent traffic connections to the motorway system and Copenhagen International Airport, should currently be considered one of the most important suburban office development areas. Recently, *Aston IT Group* committed to a project of approximately 12,000 sqm in this area.

(10) Amager and Ørestad

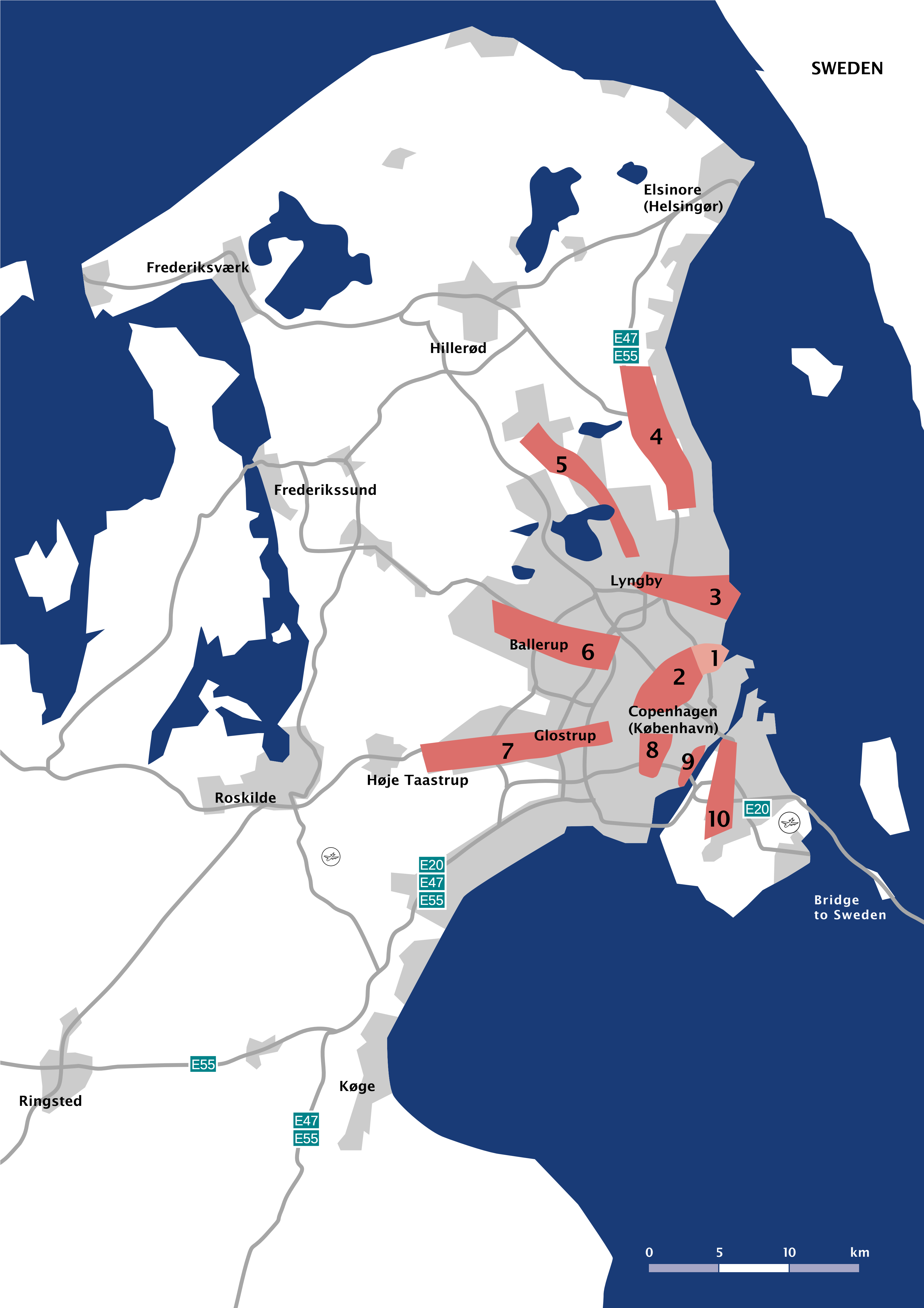
Development activity on the island of Amager, in areas between the city centre and Copenhagen International Airport, is currently increasing and may well boom over the next couple of years. The *National Association of Local Authorities* (Kommunernes Landsforening) (12,000 sqm), the *Union of Commercial and Clerical Employees in Denmark* (HK) (12,000 sqm) and the *Danish Broadcasting Authority* (Danmarks Radio) (110,000 sqm) have all chosen this location for owner-occupied development projects.

The Ørestad City area, further south and with immediate motorway access, has a development potential of some 600,000 sqm. Over the next 5 years, this area may due to the excellent infrastructure well develop into a preferred location for large-scale office users who are unable to find adequate opportunities within CBD.

Rents

Top rental levels		**(DKK/sqm/annum)**			**Change**
	1996	**1997**	**1998**	**1999**	**from 1998**
1 Østerbro	1,050	1,050	1,150	**1,600**	**39%**
2 Nørrebro/Frederiksberg	900	900	900	**1,050**	**17%**
3 Lyngby/Hellerup	1,300	1,400	1,500	**1,500**	**0%**
4 The north axis	1,050	1,050	1,050	**1,100**	**5%**
5 Birkerød/Allerød	900	950	950	**1,050**	**11%**
6 Herlev/Ballerup	950	1,050	1,050	**1,100**	**5%**
7 The west axis	800	850	950	**1,050**	**11%**
8 Valby	800	800	800	**850**	**6%**
9 The South Harbour	1,000	1,100	1,250	**1,300**	**4%**
10 Amager/Ørestad	N/A	N/A	1,400	**1,400**	**0%**

Average rental levels		1996	1997	1998	1999	Change from 1998
		(DKK/sqm/annum)				
1	Østerbro	900	900	950	**1,000**	**5%**
2	Nørrebro/Frederiksberg	650	650	700	**725**	**4%**
3	Lyngby/Hellerup	1,000	1,000	1,100	**1,150**	**5%**
4	The north axis	800	850	850	**850**	**0%**
5	Birkerød/Allerød	650	750	800	**850**	**6%**
6	Herlev/Ballerup	700	750	800	**800**	**0%**
7	The west axis	550	600	675	**725**	**7%**
8	Valby	550	600	600	**650**	**8%**
9	The South Harbour	800	800	900	**1,100**	**22%**
10	Amager/Ørestad	N/A	850	850	**950**	**12%**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Frederikssund
Lyngby
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Ballerup
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Copenhagen
(København)
Glostrup
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Høje Taastrup
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to Sweden
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The office property investment market

- **Strong demand from domestic and international property companies**
- **Pension funds focusing on built-to-suit projects**
- **Prime yields down to 6 percent**

The current strength of the Copenhagen office letting market, with an overall vacancy rate of approximately 2.3 percent, is boosting domestic and international investor confidence in the office investment market.

Whereas property companies to a large extent seem to concentrate on existing properties, institutional investors (pension funds and insurance companies) prefer new office projects, normally pre-let on 10-year leases.

Recent notable transactions include:

- The acquisition by Swedish *Diligentia* of a portfolio of fully let office buildings, mostly with 10-year leases. Tenants included *L'Oreal*, *Leo Burnett* and *Gallup*. The total transaction amounted to approximately DKK 370 million, and the average net initial yield was slightly in excess of the 7 percent bracket.

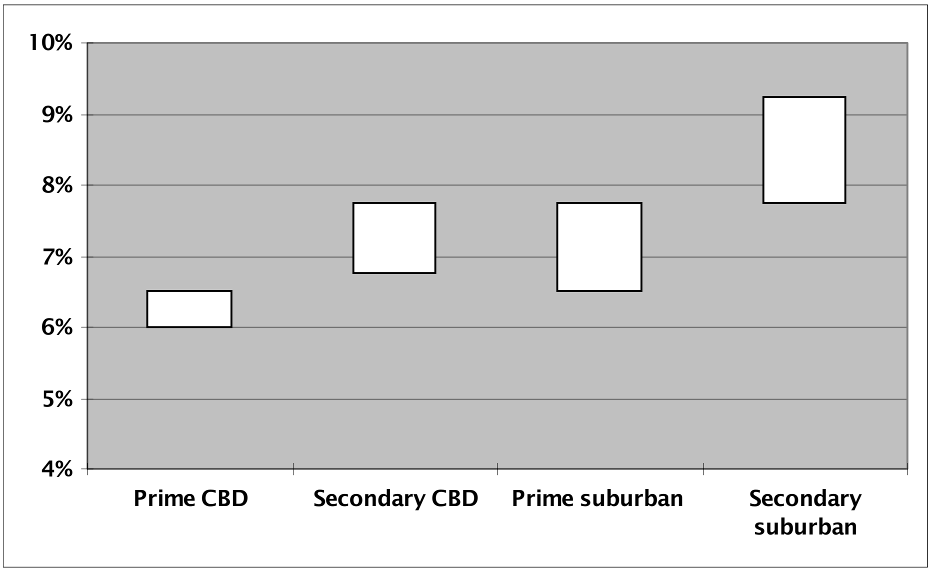
- Domestic insurance company *Tryg-Baltica* has acquired a suburban office project, pre-let to *Electrolux*, at an estimated net initial yield of 6.5 percent.

- Pension fund *ATP* has acquired two office buildings within CBD, let on short leases, at an estimated average yield slightly below 8 percent. Approximately 50 percent of the space will be vacated in 3 years and must subsequently be refurbished.

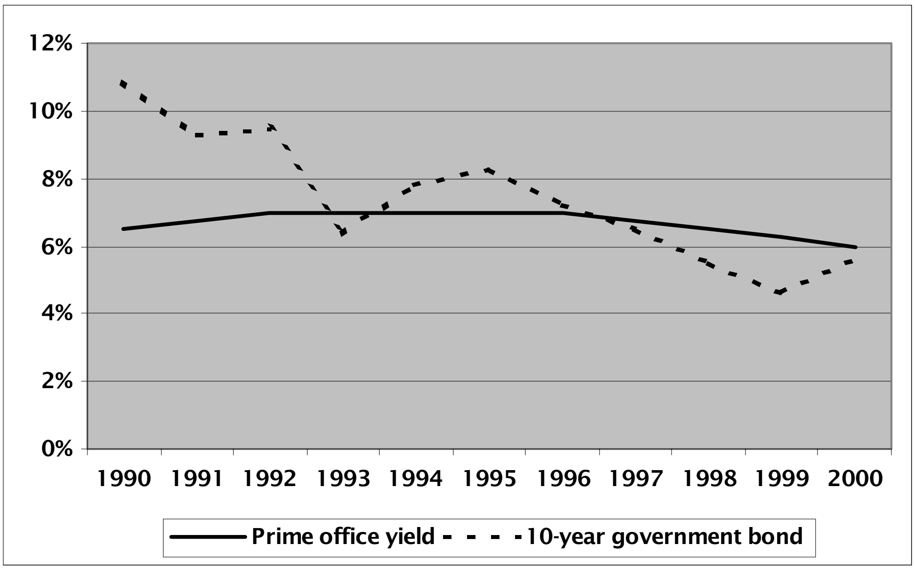
- The largest domestic property company *EjendomsSelskabet Norden* has acquired the former Municipal Hospital of Copenhagen. The property, totalling some 58,000 sqm of space, will be redeveloped for office, training and residential purposes and the total investment is expected to be in the region of DKK 600 million.

Prime yields at 6.0 percent on rack-rented Class A properties are now at the same level as the yield on a 10-year government bond.

Net initial yields, office



Yield gap



The retail property market

- **Overall vacancy in the retail sector virtually zero**
- **International retailers aggressively seeking space in the High Street market,**
- **New shopping centre developments in the pipeline, but no further out-of-town shopping centre developments will be approved**

Whereas the secondary market remains rather stable, tenant demand for prime and good retail space in high street locations and important shopping centres remains very strong and rents are increasing. This trend is underlined by restrictions on new out-of-town shopping centre developments, leaving occupiers with limited opportunities now and in future.

The retail market in Greater Copenhagen may be divided into a number of sub-categories (for typical rental levels, please see below):

(1) The "High Street" retail market in the city of Copenhagen
This market is concentrated in the pedestrian street area, the so-called "Strøget", running from Rådhuspladsen (the City Hall Square) to Kongens Nytorv, and Købmagergade, connecting Strøget with Nørreport Train Station.

This area accommodates both department stores and local as well as major international retailers. The most exclusive part of the area is the part close to Kongens Nytorv where especially international retailers tend to locate.

The competition for units on Strøget remains extremely fierce, and key money is significant, even on rack-rented units.

A significant number of domestic and especially international retailers are currently actively pursuing very few opportunities to acquire suitable premises.

Restaurants and amusement areas are located at either end of Strøget, namely in the City Hall/Central Station area and in Nyhavn.

(2) The provincial "High Street" retail markets

Typical local high-street retail areas are found in the town centres of Elsinore, Hillerød, Roskilde and Køge.

(3) The shopping centre market

A number of attractive regional (sales area 20,000 sqm+) and local (suburban) shopping centres are located in the Greater Copenhagen area, the largest being *Lyngby Storcenter* to the north, *City 2* to the west and *Hundige Storcenter* to the south.

The most important shopping centre development area is *Ørestad*, between the city centre and Copenhagen International Airport, immediately by the motorway, train and metro stations, where a consortium of *TK Development* and Norwegian *Steen & Strøm* will develop a shopping and entertainment centre (called *Field's*) in excess of 70,000 sqm. The centre will be anchored by a hypermarket, and *AMC* is expected to commit to a lease concerning a multiplex cinema.

Another important new shopping centre, the *Fisketorvet* project, is currently under construction on a waterfront site just south of the city centre. Swedish *Piren* develops the centre. Among anchor tenants are *CinemaxX*.

Future out-of-town shopping centre development is restricted by regulations imposed by the Danish parliament.

(4) The retail warehouse market

The retail warehouse concept has become increasingly popular in the Copenhagen market – prime locations being areas with immediate access to the major arterial roads to the city of Copenhagen.

The restrictions imposed on further development of out-of-town retail centres also affect the retail outlet market, stipulating a top limit of 3,000 sqm for supermarkets and merely 1,000 sqm of maximum sales area for non-food retailers. Development of any larger retail facility may only take place upon a time-consuming and complicated planning procedure.

Rents

Typical rental levels

		Area up to 100 sqm	Area 100-300 sqm	Area 300 sqm+
1a	Copenhagen High Street (upper end)	12,000-17,000	9,000-12,000	5,000-10,000
1b	Copenhagen High Street (lower end)	6,500-9,000	4,000-6,000	3,500-5,500
2	Provincial High Streets	1,800-3,000	1,500-2,300	900-1,600
3a	Regional Shopping Centres	1,800-4,000	1,500-3,500	1,200-2,500
3b	Local Shopping Centres	1,300-2,000	1,100-1,800	800-1,500
4	Retail Warehouses	N/A	N/A	1,000-1,600

The retail property investment market

- **High street properties attract significant interest from limited partnerships and specialised international investors**

- **International investors look for opportunities in the shopping centre market, but are frustrated by lack of supply**

- **Yields in the retail warehouse sector have hardened by 0.75 percent due to strong private interest and severe planning restrictions**

Despite slightly waning consumer confidence, investor demand for retail properties remains strong from both domestic and international investors. In the High Street market the investor interest is fuelled by a rather massive occupational demand from several international brand names.

Investor confidence in the shopping centre and retail warehouse market is on the other hand underpinned by the recently adopted planning restrictions that basically have resulted in a full stop for new out-of-town retail projects. This should inevitably lead to increasing rent levels on existing retail properties in good locations.

Notable transactions include:

- The acquisition by domestic insurer *Danica* of a portfolio of eight important shopping centres. The transaction exceeded DKK 2 billion and the average net yield is estimated at 6.4 percent.

- Swedish property company *Piren AB* has acquired a 40,000 sqm+ shopping centre development project on the Copenhagen harbour front, the *Fisketorvet* project.

- *Schroders* has acquired a high street redevelopment project, pre-let to *Benetton* and *Diesel*. The price reflected a net yield of 6.0 percent, albeit with slightly reversionary rents.

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Net initial yields, retail

The industrial property market

- **The vacancy rate has stabilised at 1.5 percent**

- **Most of the current stock does not comply with tenant demand for modern distribution facilities**

- **New developments purely on a pre-let basis**

Most major occupiers in the industrial sector look for modern distribution space, whereas the vast part of the available space is of a more secondary quality with low ceiling heights. Thus, a surge in development activity concerning state-of-the-art distribution space may be expected, although until now purely on a pre-committed basis. On the other hand, the vacancy rate for secondary space seems to be increasing slightly, and rents may well come under pressure.

Industrial and warehouse premises as well as sites ready for development are scattered over the region.

Among preferred locations are (for rental levels and site acquisition prices, please see below):

(1) The axis Birkerød/Allerød/Hillerød
This area is especially popular with companies within the high-tech industry, e.g. data communications, software development, medical production and biotechnology.

(2) The Ballerup/Måløv area
The western part of Ballerup and the town of Måløv are becoming increasingly popular areas for light manufacturing, distribution, etc.

(3) The Brøndby/Glostrup/Herlev area

Manufacturing companies, the food sector and distribution have traditionally dominated this area.

(4) The south axis

Two major areas to the south of Copenhagen are Avedøre Holme and the Ishøj/Greve area. These areas enjoy excellent motorway connections and are especially popular with distribution companies and manufacturing companies who focus on road distribution aspects.

L'Oreal and *Ingram Micro* in the Greve area have recently committed pre-lettings of major distribution facilities.

An important aspect to consider in regard to Avedøre Holme is the fact that this particular area has the most liberal pollution margins in the entire Greater Copenhagen area.

(5) The South Harbour (Sydhavnen)

This area, close to Copenhagen CBD, is undergoing a transformation into a mixed office/light industrial area. It seems to be especially popular with companies in the telecommunications sector and – due to the proximity to motorways, CBD and Copenhagen International Airport – also trading companies with showrooms, etc.

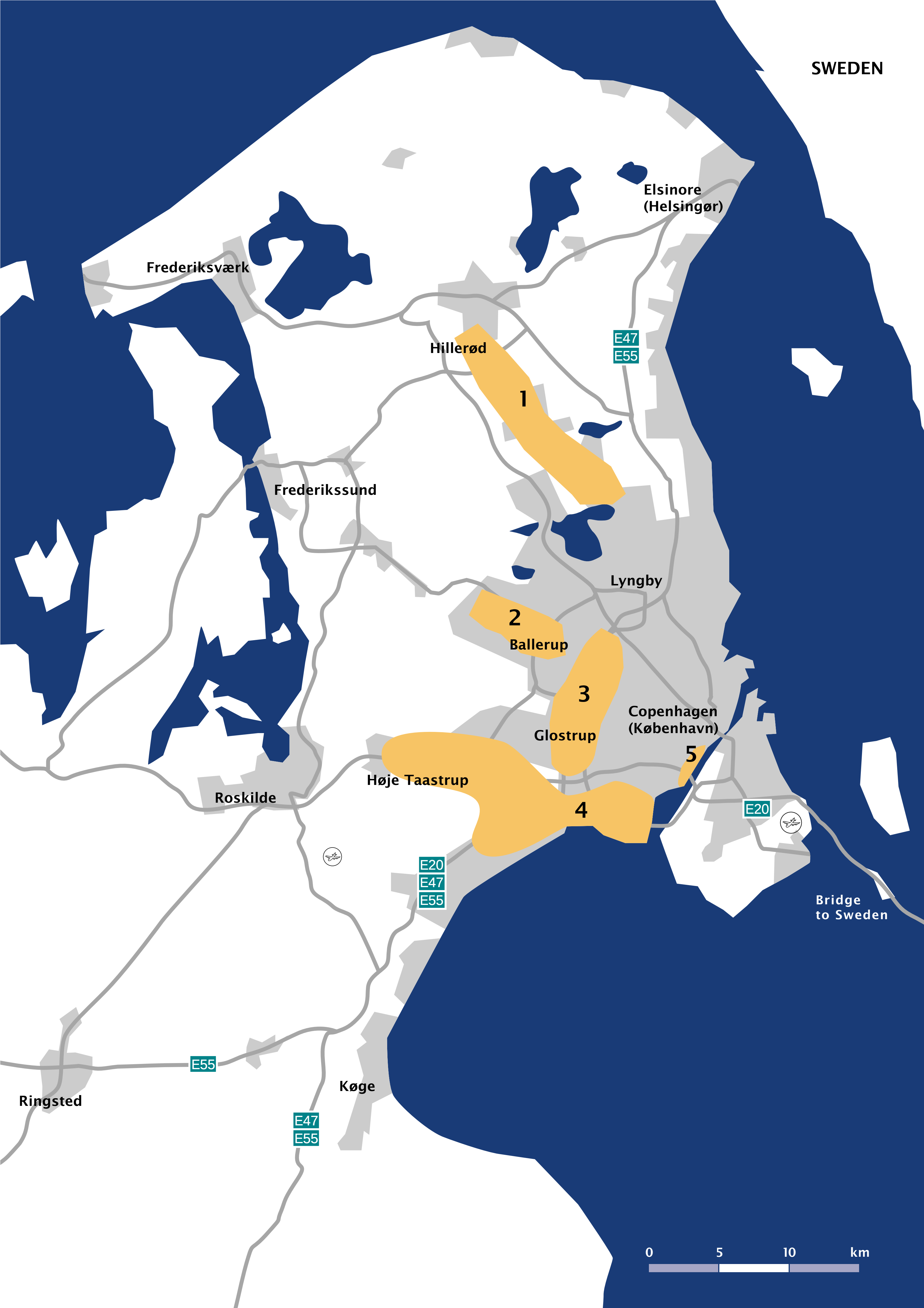
Rental levels and site values

Prime rental levels			(DKK/sqm/annum)			Change
	1995	1996	1997	1998	1999	1998-99
1 Birkerød/Allerød/Hillerød	500	500	500	525	**525**	**0%**
2 Ballerup/Måløv	450	500	500	525	**525**	**0%**
3 Brøndby/Glostrup/Herlev	450	500	500	525	**525**	**0%**
4 The south axis	400	450	500	525	**550**	**5%**
5 The South Harbour	700	700	750	750	**750**	**0%**

Secondary rental levels			(DKK/sqm/annum)			Change
	1995	1996	1997	1998	1999	1998-99
1 Birkerød/Allerød/Hillerød	350	350	375	375	**375**	**0%**
2 Ballerup/Måløv	375	375	400	425	**425**	**0%**
3 Brøndby/Glostrup/Herlev	325	325	350	375	**400**	**7%**
4 The south axis	275	300	350	375	**400**	**7%**
5 The South Harbour	400	425	475	500	**525**	**5%**

Prime site values			(DKK/sqm building right)			Change
	1995		1997	1998	1999	1998-99
1 Birkerød/Allerød/Hillerød	1,000	1,000	1,100	1,100	**1,200**	**9%**
2 Ballerup/Måløv	1,000	1,000	1,000	1,150	**1,200**	**4%**
3 Brøndby/Glostrup/Herlev	800	900	900	1,000	**1,100**	**10%**
4 The south axis	750	800	850	950	**1,100**	**16%**
5 The South Harbour	1,200	1,200	1,400	1,400	**1,500**	**7%**

Secondary site values			(DKK/sqm building right)			Change
	1995	1996	1997	1998	1999	1998-99
1 Birkerød/Allerød/Hillerød	800	800	900	900	**900**	**0%**
2 Ballerup/Måløv	900	900	950	1,050	**1,050**	**0%**
3 Brøndby/Glostrup/Herlev	600	700	700	800	**900**	**13%**
4 The south axis	500	600	650	750	**850**	**13%**
5 The South Harbour	1,000	1,000	1,200	1,200	**1,250**	**4%**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The industrial property investment market

- **Prime built-to-suit projects attract institutional investors**

- **The secondary market dominated by private investors**

- **Prime yields heading downwards whereas secondary yields are stabilising**

Traditionally owner-occupiers and private investors have dominated the industrial and warehouse market. A strong occupational market with an overall vacancy rate of a mere 1.5 percent and a – compared to office and retail investments – rather generous net initial yield have, however, boosted institutional interest, attracted by solid cash flows.

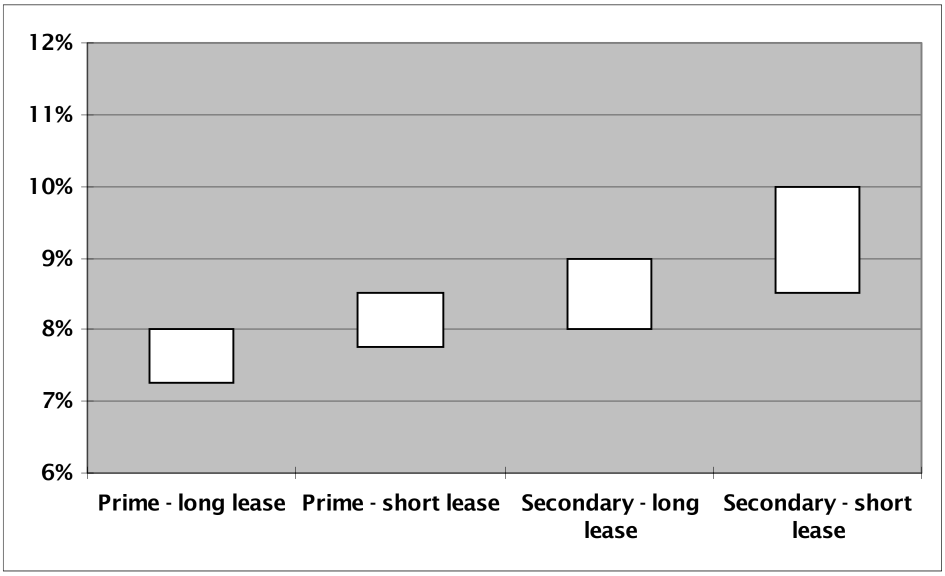
The vast part of even new industrial and warehouse stock is constructed with ceiling heights of not more than 6 to 8 meters. This fact coupled with the increasing focus on Copenhagen as the most important Scandinavian distribution centre should ensure the success of even speculative warehouse projects designed to state-of-the-art specifications.

Notable investment transactions include:

- Insurance company *Tryg-Baltica* has acquired *Danbyg* Holding, a specialised property company focusing on industrial and warehouse buildings. The portfolio of DKK 2 billion, albeit comprising mainly secondary, well-maintained and virtually fully let properties, was traded at an estimated net yield of 8.5 percent. There was a remarkable international investor interest in the portfolio.

- Pension group *AP Pension* has acquired a 12,000 sqm high specification warehouse project at prime motorway location just south of Copenhagen. The price of the project, which was pre-let to *L'Oreal* on a 10-year lease, reflected a net initial yield of approximately 7.5 percent.

Net initial yields, industrial/warehouse



The hotel property market

- **International hotel operators are expanding in Copenhagen**

- **Boom in the hotel property investment market, fuelled by private investors**

- **High hotel property yields reflect the lack of institutional interest**

The Copenhagen hotel market, currently totalling approximately 100 hotels and 18,000 beds, witnesses a total room occupancy of more than 70 percent - and for quality hotels in the city centre the occupancy rate exceeds 80 percent.

The strength of the market in combination with a general international focus on the Copenhagen region has fuelled an immense international interest in the hotel sector.

Two years ago, the only major and truly international operator present in the market was *SAS Radisson*. Since then, *Accor* has taken over the operation of 7 hotels, and new developments are under construction for *Hilton* in the airport area and *Marriott* on the central harbour front. Furthermore, all significant Scandinavian chains are expanding in the market, including *Scandic*, *First*, *Choice*, and *Rainbow*.

Recent notable transactions include:

- *Copenhagen Airport* has entered into a management agreement with *Hilton* for a 350-room hotel in the airport area. The project, which will be owned by Copenhagen Airport, is currently under construction.

- A consortium is currently developing a 400-room hotel to be operated by *Marriott*.

- The *Palace Hotel* and *Hotel Komfort* in central Copenhagen have both been acquired by private investors at net initial yields of 3 or 4 percent. The rent of both hotels is highly reversionary, and the equivalent yield is estimated at 8 percent.

- Private investors have acquired the *Neptun Hotel* and the *Hotel Esplanaden* at net initial yields of approximately 7.4 percent. Both hotels are let to *Choice Hotels Scandinavia* on 20-year leases.

- Also, private investors have acquired the *Hotel Astoria*, let to domestic hotel group *Arp-Hansen Hotels A/S* on a 15-year lease, at a net initial yield of 7.4 percent.

- Norwegian *Thon Group* has acquired a neighbouring site to Hotel SAS Radisson Scandinavia, close to the city centre, for the purpose of developing a *Rainbow* hotel.

Whereas existing medium-sized hotels attract significant private interest at yields of 7.25-7.50 percent, no real evidence exists concerning prime yields for new Class A hotels, which might attract institutional interest.