



# COPENHAGEN AND MALMOE

PROPERTY MARKET REPORT 2003

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# COPENHAGEN AND MALMÖE

## PROPERTY MARKET REPORT 2003

## INTRODUCTION

Economic growth in the new integrated region of Copenhagen, Denmark, and Malmoe, Sweden, officially named the *Øresund* region, has been affected by the setback in the global economy. Although still at a low level, unemployment has risen slightly, and GDP growth in 2002 was less than 1.5 per cent.

On the other hand, unlike many other European economies, the fundamentals of the region remain rather sound. Unemployment figures are forecast to stabilise and private consumption looks to increase, albeit not dramatically.

This is mainly due to the fact that the factor conditions of the region are among the strongest in northern Europe. The *Øresund* motorway and railway bridge opened in 2000, linking Copenhagen and Malmoe. Serving as a catalyst, the bridge has given birth to a cohesive new region integrating the labour, hotel and property markets, as well as the educational institutions. Additionally, the bridge has created a major retail catchment area with a combined population of 3.2 million.

Overall the region creates new opportunities and challenges for the business community and for the property sector and at the very core of the region's potential lies the quality of the workforce. With approximately 130,000 students enrolled in the 13 tertiary educational institutions, the *Øresund* region boasts a large concentration of universities and research institutions.

The region's educated workforce has a profound impact on the research capacity. Thus, there is a strong concentration of companies in the biotech and pharmaceutical industries as well as the IT and telecommunications sectors. In fact, the region has been dubbed *Medicon Valley* and offers great opportunities for synergies in these research fields.

The investments in infrastructure include the newly built Copenhagen Metro, the initiated construction of the city tunnel in Malmoe, and a massive extension of Copenhagen Airport. Not only the Copenhagen but also the Malmoe city centre can be reached by train or by car within 15 minutes from the airport or from the *Ørestad* development scheme, located near the airport.

The region's location in the heart of northern Europe combined with an extraordinarily well-developed infrastructure makes it a formidable location for distribution facilities. According to a survey prepared in 2002 by Swiss IMD, Denmark is second in the world only to Singapore with respect to efficient distribution systems.

Companies located in Denmark benefit from one of the world's most flexible labour markets. The fact that lay-offs can be executed with one of Europe's shortest periods of termination and at a minimum of additional cost to the employer provides a foundation for a very adaptable business environment enabling companies to accommodate business slumps by cutting costs promptly.

Several of Scandinavia's international companies are in the process of consolidating business activities in the *Øresund* region: New regional headquarters, research and development facilities as well as distribution warehouses have been set up.

The general economic setback has, however, had an effect on the region's commercial property market. After years of low vacancy rates, brisk development activity and continued rental growth, the market has witnessed growing vacancy rates and declining building activity.

Such a market offers good opportunities for occupiers, but substantial challenges for developers and investors.

Developers in the market are undoubtedly facing a couple of tough years ahead, especially in the office sector.

Nevertheless, the investment market remains stable. Property investments benefit from low bond rates and financing costs, and although prospects for growth in rents and values are limited at least in the short run, well-let commercial properties offer attractive initial returns with full indexation, and hence rather generous cash flows compared to other investment assets.

This 2003 market report by Sadolin & Albæk offers an updated overview of general economic trends and of the Greater Copenhagen and – for the first time – the Malmoe commercial property market, including occupier and investment market information and details on important transactions in various sectors and submarkets.

For their valuable input to this market report, Sadolin & Albæk would like to thank

- The Danish Centre for Forest, Landscape and Planning under the Ministry of the Environment
- Danske Bank, Economics Department
- Copenhagen Capacity, Agency for Investment and Development of Trade and Industry in Greater Copenhagen
- The Property Association of Denmark (Ejendomsforeningen Danmark – the trade organisation for rental property and property management)
- DnB Næringsmægling, Oslo
- NewSec, Stockholm and Malmoe

In particular we would like to thank our colleagues at NewSec Malmoe for their extremely valuable input concerning the commercial property market in Malmoe.

This market report has been compiled to guide you in your planning and decision-making in respect of commercial property.

It is based on data and market information that we believe to be reliable. Whilst every effort has been made to ensure that the information supplied in this market report is both accurate and complete, Sadolin & Albæk assumes no responsibility for any factual errors.

All decision-making involving property aspects – leasing, acquisitions, disposals, financing, and development activity – includes important long-term financial commitments. Such decisions should always be based on both detailed and updated knowledge and an in-depth understanding of the market.

If you have any queries concerning this market report or any other property-related issue, Sadolin & Albæk is at your full disposal.

Copenhagen, February 2003

*Sadolin & Albæk • ONCOR International*



Peter Winther  
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For more than 35 years Sadolin & Albæk has been a leading, independent firm of consultants operating in the field of commercial property in Greater Copenhagen and the rest of 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
- Property companies

Sadolin & Albæk has always specialised in mediating the purchase and sale of major

properties on a strictly confidential basis. By maintaining close contact to the most important decision-makers in the commercial property investment community, we have the ability to mediate even the largest property investment deals off-market.

**Investment consulting**

- Portfolio analysis
- Portfolio strategies
- Asset management

In response to the increasing focus on enhancing returns on investment property portfolios, we are continuously developing our tools and skills within investment consulting services, including asset management. Our advanced forecasting models enable us to take 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 know that understanding the needs of property users is key to leasing services. In today's market, occupiers want more than mere space – they want flexible, efficient and cost-effective premises, meeting the exact needs of their organisations now and in future.

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

**Corporate property services**

- Space utilisation
- Disposal of excess space
- Property exposure management
- Sale and leasebacks

Efficient space utilisation and property exposure management are becoming increasingly important issues for major property users. We offer advisory services concerning cost-efficient use of space, and all financial techniques to reduce corporate property costs and exposure.

**Valuations**

Sadolin & Albæk conducts more than 300 valuations of commercial properties each year, serving an extensive client base 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

At Sadolin & Albæk, we are neither developers, nor architects or building engineers. But we take a proactive approach to property



Peter Frische



Jeanette Rosenberg



Andreas Albæk



Morten Schultz



Thomas Christensen

development and redevelopment. And, after all, the key to successful property development is a thorough understanding of the occupational market – where it is today and where it will be 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 on extensive market research. It is the specific aim of our organisation to maintain research capabilities that are second-to-none in our market.

Our research staff conduct market studies for major international investors, banks and corporate clients and act as urban development consultants for government, regional and municipal authorities.

**Scandinavian property services**

NewSec AB, Sweden and Finland

DnB Næringsmegling AS, Norway

We have expert knowledge of our home market. In acknowledgement, however, of the regionalisation taking place in the Scandinavian countries, we have established a unique partnership with leading commercial property service providers in Sweden, Norway and in Finland.

Based in Stockholm and with branches in Gothenburg, Malmö and Helsinki, NewSec AB is a leading firm of estate agents and surveyors in Sweden and Finland. 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. DnB Næringsmegling AB is the Norwegian member of ONCOR International. See below.

**Worldwide property services**

ONCOR International

For more than 15 years Sadolin & Albæk has been a member of ONCOR International, one of the largest global organisations of professional commercial property consultants.

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

Furthermore, our daily contact with property professionals from commercial centres around the world provides our organisation with essential input on global trends within our industry, enabling us to offer property-consulting services matching the highest international standards.

Through ONCOR International, Sadolin & Albæk has business associates in the USA, Argentina, Brazil, Mexico, South Africa, the UK, Germany, France, Spain, Italy, Austria, Switzerland, Norway, Holland, Belgium, the Czech Republic, Hungary and Russia. In Asia we have associates in all significant markets.



## THE SCANDINAVIAN ECONOMIES AND PROPERTY MARKETS

- GDP growth is expected to be moderate at 2.2, 2.1 and 1.7 per cent in Denmark, Sweden and Norway, respectively
- Temporary decline in employment levels in Denmark expected to reverse as soon as in 2004. Moderately increasing interest rates
- Swedish competitive strength weakened. However, inflation and unemployment rates will continue to be stable
- Rising wage costs and high interest rates in Norway. Growth primarily driven by private consumption

Denmark in spite of the relatively serious decline in both the USA and Euroland. As a result, GDP growth is forecast at 1.2 per cent in 2002 and approximately 2.2 per cent in both 2003 and 2004. The economic outlook is thus bright for the next few years, although there are pitfalls. If the international slowdown drags on, the Danish economy faces a less favourable scenario.

As a result of last year's weak growth, employment figures will deteriorate slightly on an annual basis for the first time since 1994. The relatively well-educated occupational groups are those mainly hit by increasing unemployment rates in recent years. Engineers and IT workers have thus suffered directly as a result of the recession in the IT industry. Similarly, the professional associations in general have experienced rising redundancy.

Nevertheless, this is not believed to signal a long-term recession with several years of diminishing employment rates. Instead, owing to the growing activity in 2003, employment figures may be expected to rise slightly. The expansion of the workforce, however, will partly curb the effect of the favourable development in activity levels on the fall in unemployment.

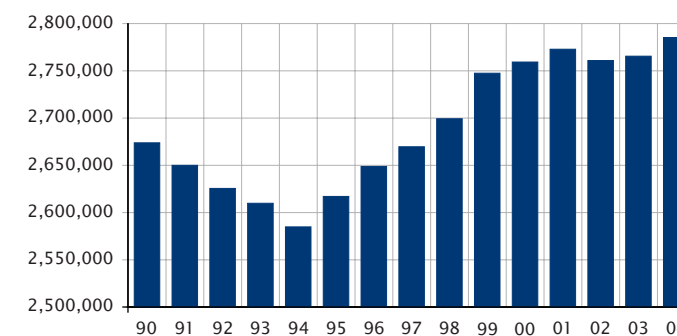
Unemployment currently stands at approximately 5.1 per cent. Unemployment is expect-

### The Danish economy

Recovery in global economic growth has failed to set in time after time. What had been expected to be a slump of short duration has turned into somewhat of a more severe long-term economic slowdown. Only in late 2003 is growth expected to pick up.

Nevertheless, the Danish economy seems to be in rather good shape. Following a slowdown in 2001 – when GDP growth stood at a mere 1 per cent – the economy picked up in 2002. Especially private consumption has prospered and is now on an upward trend after three years of limited growth. A rise in exports was also recorded in spite of the international economic downturn, and the level of business investments was sustained in

Employment, Denmark



ed to increase slightly in 2003 to approximately 5.2 per cent, and to improve to approximately 5.0 per cent 2004, due to the intensified economic activity forecast for 2004.

In 2002, inflation was 2.4 per cent and thus remained above the announced Euroland target of 2 per cent. However, forecasts for both 2003 and 2004 indicate a downward trend and inflation is expected to drop to 2.2 per cent and 1.7 per cent, respectively. With no projections of further improvements in unemployment, we anticipate no increase in wage pressures in the years ahead. Supported by the strengthened Danish krone providing for a reduced imported rate of inflation, a slightly lower rate of inflation is therefore likely in the next couple of years.

The 10-year government bond yield was 4.6 per cent at the beginning of 2003, and forecasts indicate that yields will remain at this level in 2003 and 2004, albeit increasing slightly in 2004. This interest rate level is well in line with the general development in Euroland, and the narrow yield spread between Danish bonds and Eurobonds will remain at an estimated 15 - 20 bp. The limited spread was the result of the Danish central bank's agreement with the ECB to peg the Danish krone to the euro at a fluctuation band of  $\pm 2.25$  per cent.

### The Swedish economy

On account of the weak Swedish krone and expansive fiscal policies, the Swedish economy has so far been able to weather the international economic slowdown. In 2002, private consumption continued to drive the economy, but net exports also made a considerable contribution to growth. The suspended growth in the world economy will, however, have an impact on Swedish economic growth in 2003.

Generally speaking, the investment climate is characterised by great uncertainty, especially in the share markets. Nevertheless, investments are expected to pick up slowly in the near future. A number of additional factors related to domestic issues affect the outlook for the Swedish economy in 2003. The EMU convergence will strengthen the Swedish krone – and the export businesses will lose competitive strength as a result. At the same time, economic growth will be dampened by measures to tighten fiscal policies, including municipal tax increases.

In 2002, GDP growth is projected at 1.6 per cent but growth is expected to improve to a rate of 2.1 per cent in 2003 and 2.3 per cent in 2004. Overall, expectations are that the Swedish economy will record relatively moderate growth. Nevertheless, the Swedish economy is in good shape compared with Euroland.

The labour market has shown surprising resilience with very stable employment levels. In 2002, the unemployment rate thus stood at 4 per cent and is expected to remain at this level throughout the next two years. This low rate has indeed caused a labour shortage.

The low rate of unemployment has put wages under pressure and prompted mounting price pressures in the economy. In recent years, the inflation rate has been 2.4 per cent and there are no indications that this rate is about to change in 2003 or 2004.

At year-end 2002, the yield on 10-year government bonds was 4.8 per cent. Forecasts for 2003 indicate that this level will decrease slightly, albeit only until 2004 when interest rates are projected to rise again. Swedish yields remain close to the Euroland level, at an estimated spread of 20 - 25 bp above the euro yield.

### The Norwegian economy

The Norwegian economy has done rather well despite the uncertain international economic prospects and has therefore suffered little from the international slump. But the outlook is not entirely favourable. The export-oriented businesses are struggling with a strong currency, rising wage costs, high interest rates and weak market growth. Altogether this has moved their focus from investments to cost

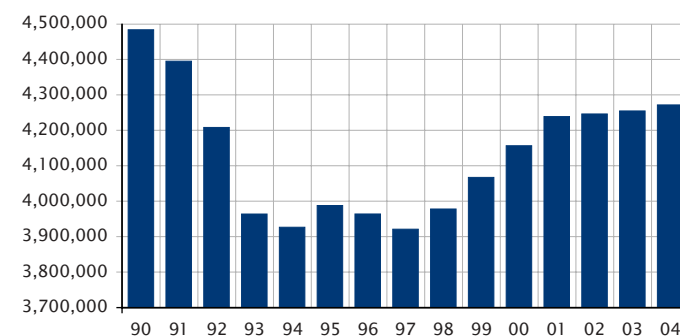
items. The forecast for net exports therefore dampens growth expectations in mainland GDP, which is expected to stand at 1.6 per cent in 2002 and 1.7 per cent in 2003, i.e. somewhat below domestic demand. Mainland GDP, however, is expected to approach the 2 per cent mark in 2004.

This could signal the onset of a dramatic economic downturn in the Norwegian economy, which is nevertheless believed to be capable of meeting the challenges. Conversely, the high nominal wage increases in excess of 5 per cent combined with tax relief measures will provide for considerable growth in real disposable incomes. This will ensure continued income-driven growth in private consumption and act as an incentive for the overall level of activity.

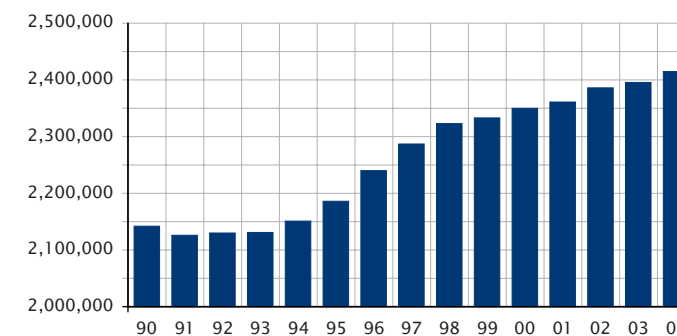
The loss of competitive strength over the last two years has so far only meant a minor rise in unemployment figures. However, the prospect of an unflagging Norwegian krone and the persistently modest international recovery would suggest that unemployment will rise from a level of 3.9 per cent in 2002 to 4.3 per cent in 2003 and 4.4 per cent in 2004. This increase will probably partly eliminate the wage push.

Growth in real income levels is not least driven by a moderate inflation rate. In 2002, inflation stood at 1.2 per cent and it will be

Employment, Sweden



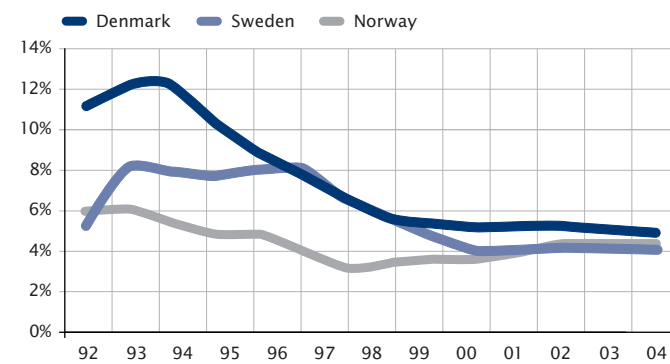
Employment, Norway



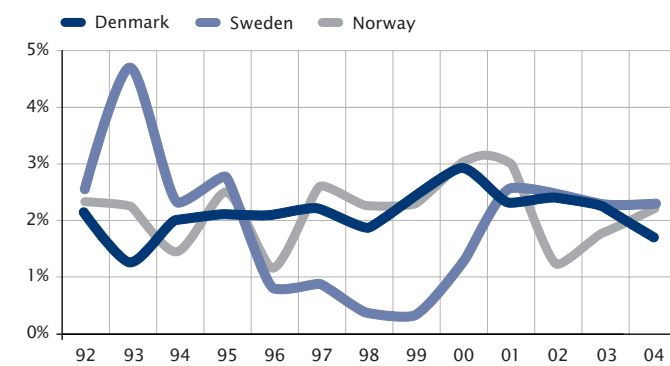
less than 2.0 per cent in 2003. Increasing oil prices may prompt a higher rate of inflation. The deterioration of Norwegian businesses' competitive edge is closely linked to the substantial wage increases, which have caused

interest rates to soar to 6.2 per cent. Interest rates are expected to remain high in the years ahead. Thus, the Norwegian interest rates are well above the level of Euroland.

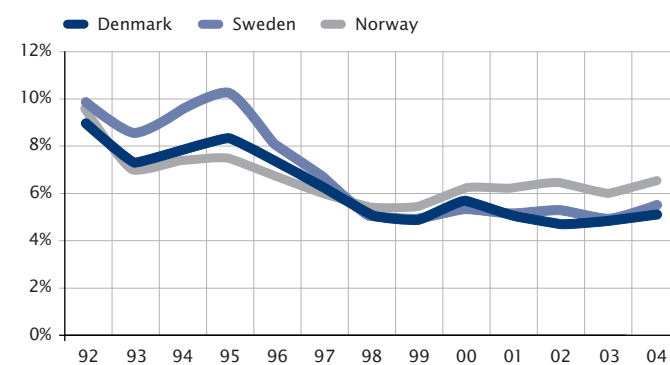
Unemployment rate



Inflation



Yields on 10-year government bonds



### The Copenhagen property market

- Population of 1.8 million
- Prime office rents stable at DKK 1,700 per sqm p.a.
- Prime office yields currently stand at 6.5 per cent and are expected to remain stable
- Secondary rents and yields may come under pressure

Although the economic slump has been a reality for some time now, the Copenhagen property market has performed rather well under the circumstances. Requirements for office space are somewhat diminishing despite resiliently high employment levels. Yet tenants are not actively seeking new premises to the same extent as earlier. This "wait-and-see" attitude is the result of a general uncertainty of market developments. As economic activity is anticipated to increase moderately, however, a further escalation of the decline in area requirements is not imminent. Nevertheless, market interest will focus on the most attractive prime locations, as new developments will almost exclusively be seen in this segment.

The office stock in Greater Copenhagen comprises approximately 10.5 million sqm of which 3 million can be defined as CBD (Central Business District) space. Copenhagen offers a wide range of diversified location opportuni-

ties. Recent Copenhagen CBD construction developments have been concentrated around the extensive harbour front, particularly around *Kalvebod Brygge* and *Langelinie*. In areas outside the CBD, office premises as well as production and warehouse facilities are located in conjunction with the arterial roads connecting Copenhagen with Ballerup and Glostrup, whereas the arterial roads around Lyngby are predominated by office premises.

Vacancy rates in Greater Copenhagen currently stand at 6.1 per cent overall and at 5.25 per cent within the CBD. Although these figures reflect an increase over last year, they should be viewed in the context of recent years' historically low vacancy rates. In effect, vacancy within the CBD has been as low as 2.4 per cent in recent years. In spite of the increase, the present vacancy rate cannot be seen to constitute a significant threat to the liquidity of property assets. Vacancy rates are expected to rise moderately.

Office rent levels have been stagnant since 2000. Prime rents range from approximately DKK 1,300 to DKK 1,700 per sqm p.a. exclusive of operating costs, whereas secondary office rents range from DKK 800 to DKK 1,300 exclusive of operating costs. The pressure on prime rents is not expected to ease in 2003, but secondary rent levels will suffer from the effects of substantial new construction in

recent years as tenants relocate to more up-to-date facilities.

Prime initial yields remained at the 2001 level in 2002, viz. at 6.25 per cent, although the increased vacancy risk will prompt somewhat higher prime net initial yields in 2003, viz. up to approximately 6.5 per cent. Secondary net initial yields will continue to stand at their present level of 7.5 per cent.

Prime production and warehouse facilities currently command rents in the order of DKK 525 to DKK 550 per sqm p.a. and a net initial yield of approximately 7.5 - 8.0 per cent. The rent for secondary production and warehouse space typically amounts to DKK 375 - 400, whereas secondary yields are stabilising at around 9.25 per cent.

High street retail rents are currently in the DKK 3,500 - 19,000 range, with secondary retail rents somewhat lower, i.e. DKK 1,000 - 3,300. High street yields are in the range of 5.75 - 6.25 per cent with some transactions reflecting a record low yield of 5.5 per cent. Secondary yields are at a level of 6.75 - 7.5 per cent.

### The Malmoe property market

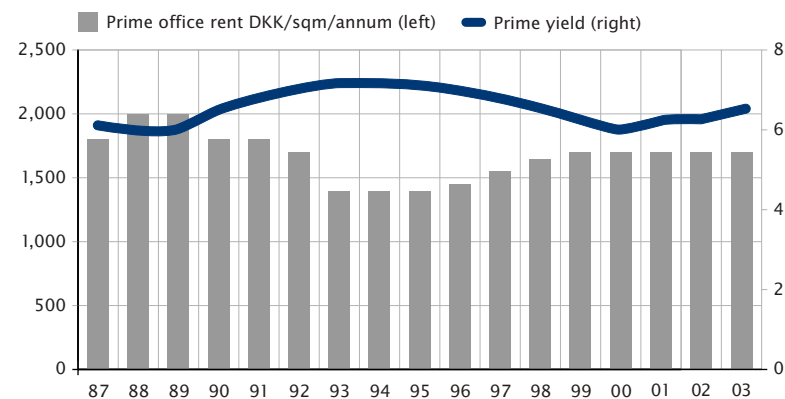
- Sweden's third largest city, with a regional population of 1.4 million
- Prime office yields at 6.75 per cent
- Prime office rents SEK 1,650 per sqm p.a. and expected to come under pressure
- Vacancy rate increased by 200 bp to 10 per cent

Malmoe is Sweden's third largest city and the regions of Scania (Skåne), Halland and Blekinge are among the most densely populated regions in Sweden. The city's former status as an industrial centre has changed and today Malmoe is an important high-tech and science centre. This will gradually have an impact on the city's commercial property market.

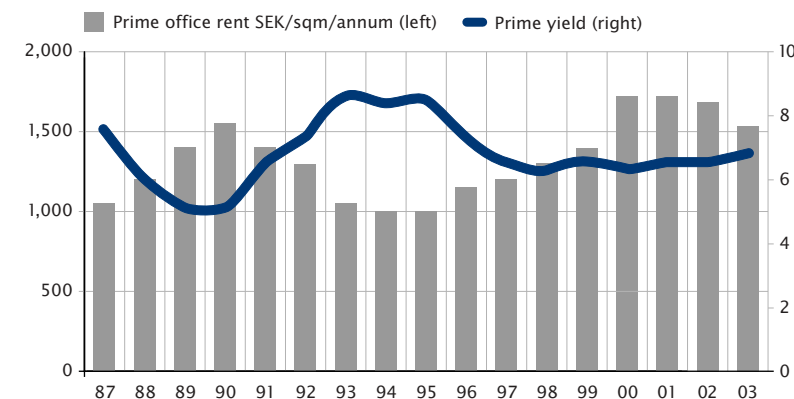
The transition was aided by massive investments in infrastructure and educational facilities, e.g. the University of Malmoe, founded in 1998. This has made Malmoe one of the main educational centres in Sweden, backed by the opportunities and synergies that arise from the close proximity to the University of Copenhagen and Lund University.

As part of the Øresund region, Malmoe is fast becoming an important location for a number of companies in the international pharmaceutical and telecommunications industries. *Telia*

Rents and yields in Copenhagen



Rents and yields in Malmoe



has committed to 14,000 sqm in a new office development in *Västra Hamnen* scheduled for completion in 2004.

Most of the development is taking place in *Västra* and *Inre Hamnen* (the western and inner harbour areas). A key attraction to businesses locating here is the easy access from the north and the south as well as the close proximity to Malmö central station. Traditionally, the area around *Stortorget* has similarly been an attractive business location.

Office rents in Malmö have edged down from their 2002 level. In spite of the economic downturn, investments in the region will persist, particularly due to the major infrastructure projects in progress. The prime office rent in Malmö is currently SEK 1,500 - 1,800 per sqm p.a. exclusive of operating costs, whereas the rent for secondary office space typically ranges from SEK 1,000 to SEK 1,300. Today, the prime net initial yield is approximately 6.75 per cent, with secondary yields approximately 100 bp higher. Current pipeline projects for new office buildings will force up vacancy rates, which currently stand at the 10 per cent level, and keep office rents under pressure.

Prime warehouse and production facilities currently command rents of SEK 500 - 850 per sqm p.a. and a net initial yield of approximately 9.25 per cent, whereas rents for secondary warehouse and production facilities typically amount to SEK 300 - 500, with secondary yields stabilising at around 10.0 per cent.

Prime retail rents are currently SEK 2,250 - 5,250, whereas secondary rents range from SEK 1,200 to SEK 2,000. The prime and secondary yields are 6.5 and 7.5 per cent, respectively.

### The Stockholm property market

- *Decreasing prime office rents*
- *Prime office yield currently at 6.5 per cent and expected to be stagnant*
- *Current CBD office vacancy rate at 7 per cent*

Stockholm has been experiencing a property market slump in recent years. The burst of the IT bubble had a strong impact on the market, reducing demand from two important sectors in Stockholm, viz. the IT and finance sectors. The economic uncertainty that followed the stock market crash is expected to continue for some time yet. Consequently, the traditionally liquid property market in Stockholm has seen a reduction in the number of transactions. Also, the frequency of new commercial projects has been reduced significantly, and existing projects are reminiscences of the recent economic boom.

With an office stock of approximately 10 million sqm, Stockholm can be considered one of the largest office markets in Scandinavia. The city's most attractive area for office locations is the "*Golden Triangle*" located between the three squares of Stureplan, Norrmalmstorg and Nybroplan. Rent levels within the "*Golden Triangle*" and the Stockholm CBD are supported by a somewhat limited supply of office premises, as the total CBD office stock only comprises approximately 1.5 million sqm of space.

Prime office rents in the CBD dropped in 2002 and currently range between SEK 3,800 and SEK 4,400 per sqm p.a. exclusive of operating costs, whereas prime rents in other parts of the inner city amount to between SEK 2,200 and SEK 3,100. Secondary rents are substantially lower than that, averaging as little as SEK 1,000 to SEK 2,200 per sqm, but are maintaining their 2001 level. The decrease in rents reflects a situation with increasing vacancy rates. Vacancy in the "*Golden Triangle*" is approximately 6.5 per cent,

reflecting an increase of 300 bp over the course of a year. Overall office vacancy is approximately 9.5 per cent. Rents will continue to fall as a consequence of continuously contracting demand, but most likely at a more moderate pace than seen previously.

The prime yield in the "*Golden Triangle*" currently stands at 6.5 per cent, whereas office properties in other parts of the inner city trade at around 7 per cent. Secondary office yields currently stand at 7.75 per cent. There was a significant increase in yields during 2002 as a result of growing market uncertainty. CBD yields are not expected to rise above their present level.

The Stockholm prime rent for production and warehouse facilities is currently SEK 700 - 900 per sqm p.a. exclusive of operating costs, with prime net initial yields of approximately 8.5 per cent, whereas rents for secondary production and warehouse space typically run at SEK 350 - 600. Secondary yields are stabilising at around 9.5 per cent.

High street retail rents currently range from SEK 5,000 to SEK 12,000, whereas secondary retail rents are SEK 3,000 - 4,500. Prime and secondary yields are 6.25 and 7.5 per cent, respectively.

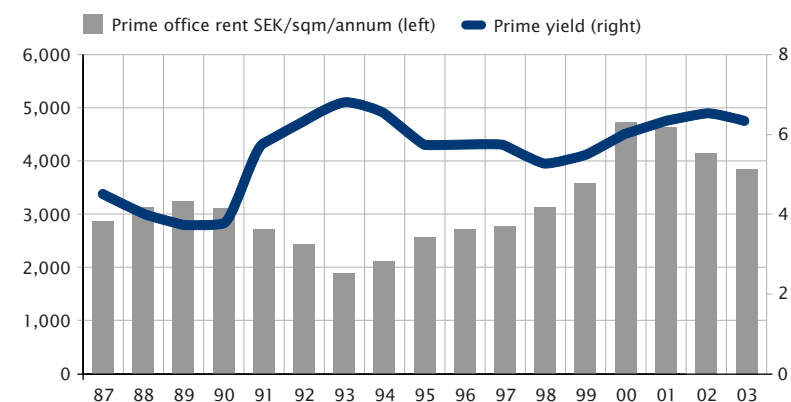
### The Oslo property market

- *Prime office yield 7.5 per cent*
- *Prime office rent forecast at around NOK 2,100 per sqm*
- *Current office vacancy rate in Greater Oslo 9 per cent*

The Greater Oslo office stock totals about 8.5 million sqm of space. Several years of soaring rents and historically low vacancy rates have created an uneasy situation in the Oslo property market. Anticipations of high growth rates, especially in the IT and telecommunications sectors, stimulated heavy demand, but as growth expectations failed to materialise, the availability of space for sub-leasing soared. This has rendered vacancy on the rise and rents on the decline. In 2002, vacancy rates in Greater Oslo stood at the 9 per cent level and are expected to increase to 10 per cent during 2003. It is expected that most of the adjustments in office rents have been implemented already. Thus, only modest reductions in rents remain to be seen in the years ahead.

Yields are stable and are likely to stay that way at an elevated level, reflecting Norway's high interest rates. Thus, capital values in the

Rents and yields in Stockholm



Oslo CBD have fallen and are expected to continue to fall moderately in the next few years.

The CBD office vacancy rate stands at approximately 4 per cent, which is 500 bp lower than the average Greater Oslo vacancy rate. Today, prime rents are in the order of NOK 2,200 per sqm p.a. exclusive of operating costs, whereas secondary rents range between NOK 1,500 and NOK 1,700 per sqm.

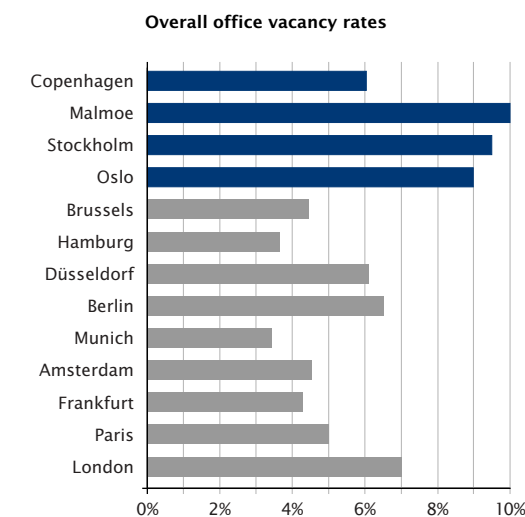
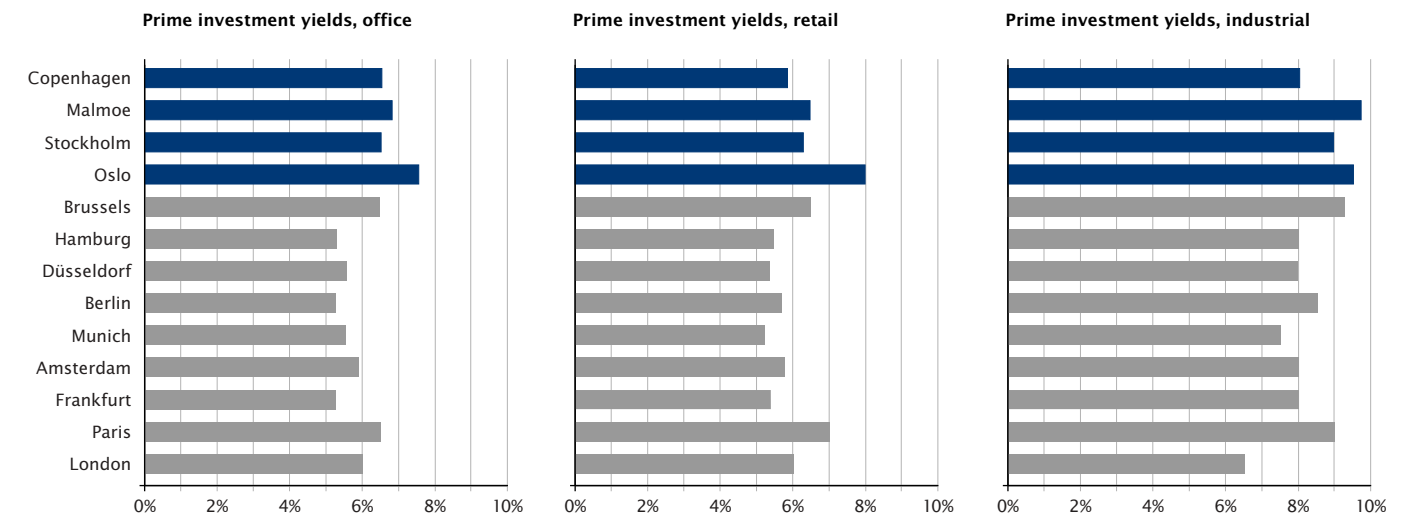
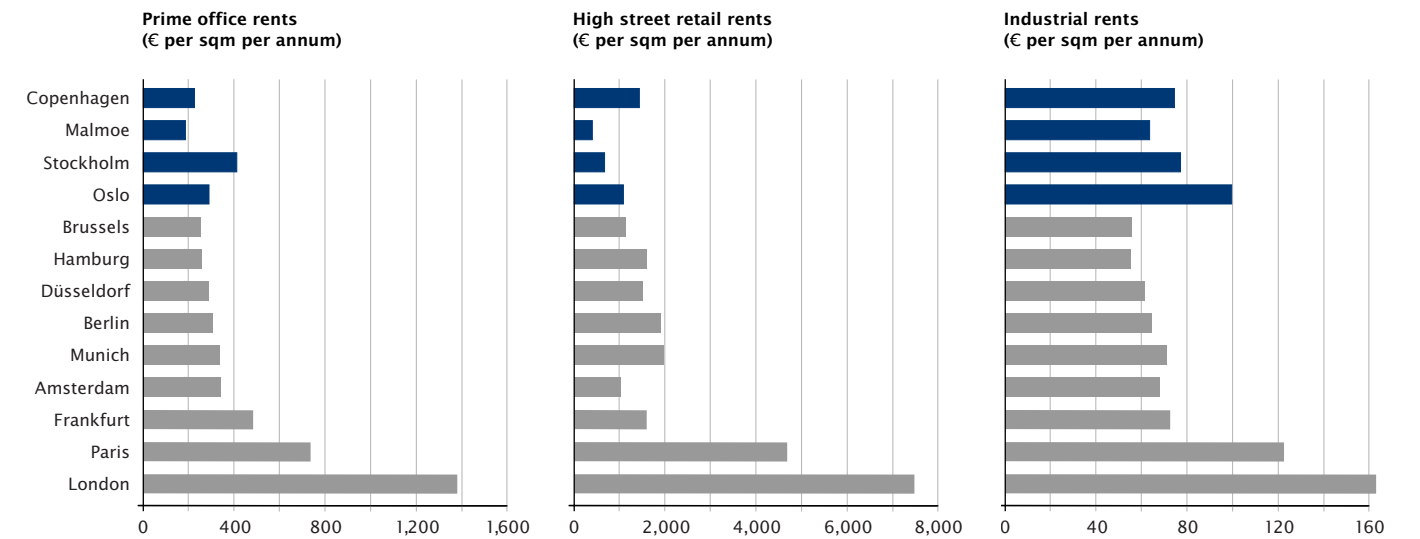
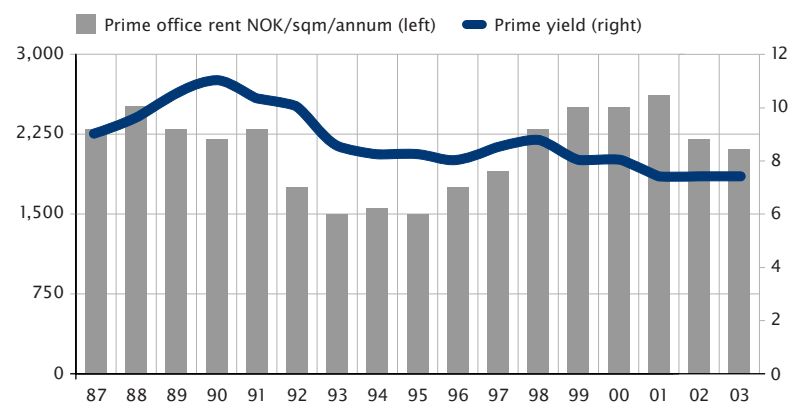
Present developments within the CBD area are focused on the harbour front. The area around the western harbour is now being developed. However, the rate of new commercial projects has been reduced due to a general slump in demand.

Yields at prime CBD locations are rather high, typically ranging between 7.5 and 8.5 per cent, and are expected to remain at the 2002 level over the next 12 months. Secondary office yields are in the 8.5 - 9.5 per cent range.

Prime business areas in the Oslo CBD are the *Government Area*, *Aker Brygge* (harbour area) and the area around *Oslo central station*. Prime warehouse and industrial facilities currently command rents of NOK 600 - 800 per sqm p.a. and a prime net initial yield of approximately 9.5 per cent, whereas the rent for secondary space typically amounts to NOK 400 - 600, with secondary yields as high as 11.5 per cent.

The high street retail market in Oslo is located around *Karl Johansgate* and *Bogstadsveien*. The locations for shopping centres are typically the city centre and the major arterial roads to and from Oslo. High street retail rents are currently NOK 3,500 - 14,000 per sqm p.a., whereas secondary rents are NOK 1,000 - 3,000. Prime retail yields currently stand at 8 per cent, and secondary yields are approximately 10.5 per cent.

Rents and yields in Oslo



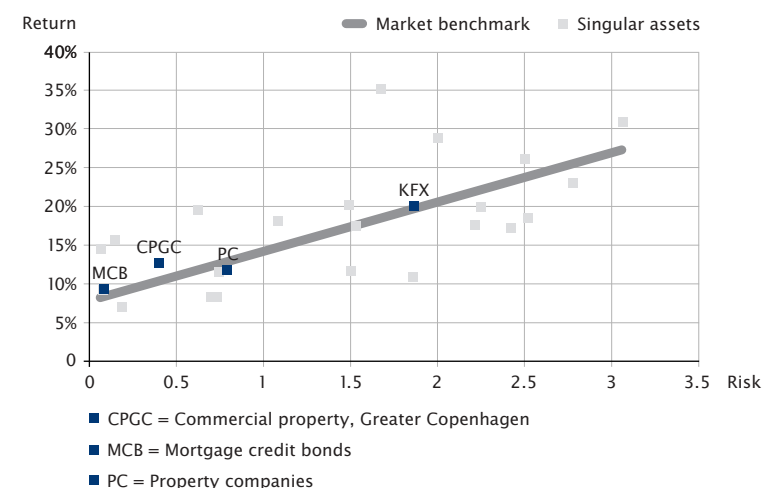
## THE SADOLIN & ALBÆK PROPERTY PRICE INDEX

- Average price increase of 8.0 per cent in 2002
- Average income return of 6.7 per cent bringing the total average return to 14.7 per cent in 2002 including the increase in prices
- Commercial property performed better than the investment risk would indicate

In 2002, average commercial property prices increased by 8.0 per cent in the Greater Copenhagen area. This constitutes a slightly higher increase than the one seen in 2001 and is somewhat contrary to the initial market expectations for 2002.

Despite the greater uncertainty and lack of demand in the user market, investment demand was strong in 2002. The higher increase in property prices in 2002 over 2001 was driven by two factors, in particular. Firstly, the continued drop in interest rates made for better financing. Secondly, both the retail high street and residential investment properties exhibited notable price increases as a result of extensive demand from private investors. The industrial and office property investment markets seemed to ease off during the second half of 2002, and this trend is expected to continue in the years ahead.

### Risk and return on stocks, bonds and commercial property



In 2002, the average income return was 6.7 per cent, a 20 bp drop from the 2001 level. Combined, the income return and the capital gain yielded a total average return of approximately 14.7 per cent in 2002.

Since 1985, income return has ranged between 6.8 and 8.8 per cent, whereas capital growth has fluctuated between -11.8 and 31.3 per cent. From 1985 to 2002, total return was negative only from 1991 to 1993, whereas the average total return since 1995 has been 14.6 per cent.

### Property investment risk

Sadolin & Albæk has calculated the property investment risk in Greater Copenhagen based on data from 1986 to 2001. We have collected time series data for the return of an adequately diversified portfolio of stocks, bonds and commercial property. Based on these data we have calculated each single asset's contribution to this portfolio's return volatility. By doing so it is possible to quantify the risk of holding a portfolio consisting exclusively of either stocks, bonds or commercial property.

Since 1990, when performance data for the *KFX-index* became available, commercial property investments in Greater Copenhagen have

yielded a compound annual return of 8.7 per cent. Commercial property thus outperformed mortgage-credit bonds (compound annual return of 8.1 per cent) during the period. Stock market returns have been higher, yielding a compound annual return of 10.7 per cent.

The higher returns in the stock market come at the expense of increased exposure to return volatility. For example, the stock market, as measured by the *KFX-index*, carried more than four times as much risk as the commercial property investment market. Conversely, a benchmark mortgage-credit bond has involved approximately four times less risk than a commercial property investment.

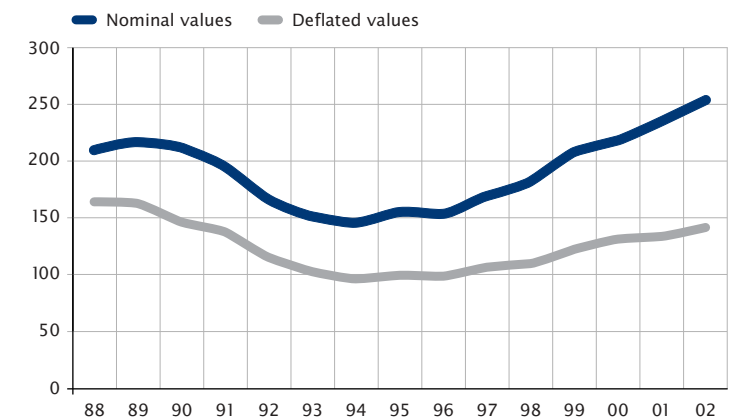
When observing the risk/return relationship, commercial property has performed slightly better than average return required by the investment market on assets with a similar risk exposure.

Additionally, our analysis shows that indirect property investments have yielded a significantly lower return than direct property investments. Thus the low liquidity of property company stocks has resulted in a return of only 3.9 per cent since 1990. Moreover, these indirect investments carry greater risk exposure.

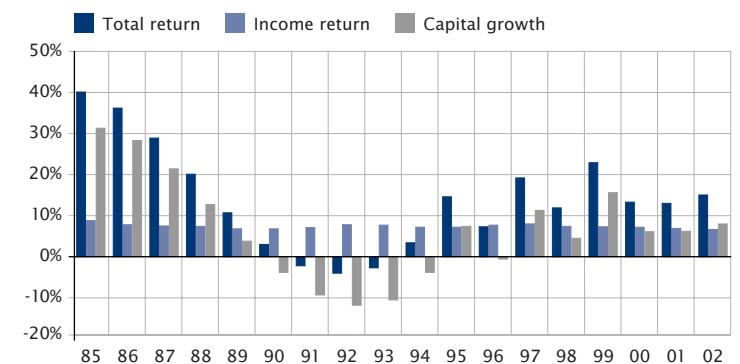
### Model and approach

For both the Sadolin & Albæk property price index (capital growth) and the income return calculations we have used a hedonic multiple regression analysis based on empirical analysis of data collected from approximately 1000 property sales and property evaluations in the Greater Copenhagen area, all involving Sadolin & Albæk. The model covers all types of commercial property, but fixed implicit prices are applied for the various property characteristics, mainly location, use, state and condition/quality, suitability/rationality and economies of scale, as a corrective measure to account for the differences between individual properties.

Sadolin & Albæk property price index (index 100 = Q3 2984)



Total return, income return and capital growth (in %) for commercial property in the Greater Copenhagen area



The analysis on risk and return has been conducted in accordance with the *Capital Asset Pricing Model (CAPM)*. The model stipulates that the risk of an asset is compensated in proportion to its return. An asset's risk/return relationship is compared to an overall market benchmark enabling investors to track investment choices. Any asset return on the benchmark line is rewarded for its risk in accordance with market compensation. Any asset return that lies beneath the line is not fully compensated for its risk. Conversely, asset returns above the line perform better than the market compensation for the risk exposure.



## TRENDS IN THE COPENHAGEN AND MALMOE OFFICE MARKET

- *Slack office letting market*
- *Overall vacancy has doubled in less than 12 months*
- *Stagnant rents in older office stock*

Letting activity in the office market was very modest throughout 2002.

The economic slump and slowdown in growth has made companies very reluctant to lease new premises, and many companies have suspended their active search for new premises.

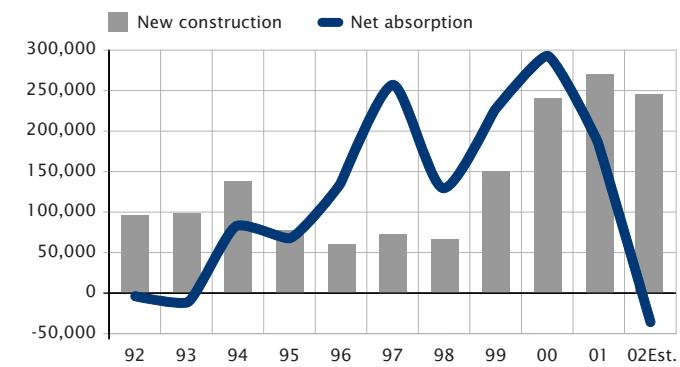
This especially applies to tenants with large space requirements as their typical decision-

making process is somewhat more prolonged than that of small or medium-sized companies. Small office tenancies in new developments are, however, still in good demand. This demand has existed for several years, but in the period from 1998 to 2001 prospective tenants were only rarely able to identify available high-quality and up-to-date office premises. In this respect, the market has now changed to the effect that tenants with space requirements of up to 2,000 sqm can now sign leases in new attractive office buildings.

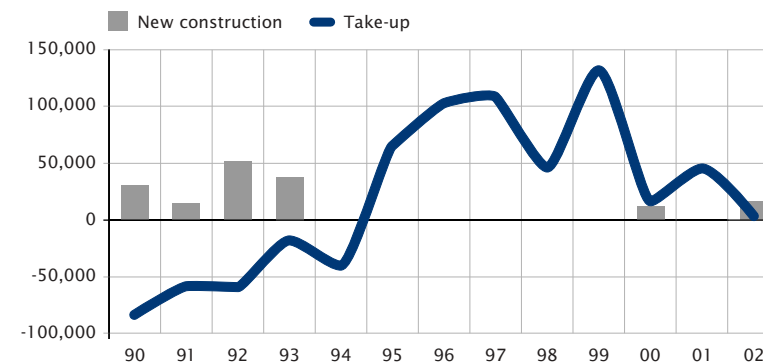
In particular, the weak market trends have affected the office vacancy in the Copenhagen city centre where many office tenancies have

**OFFICE**  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

Net absorption and completed construction (sqm office space)



Take-up and completed construction (sqm office space), Malmoe



been vacated over the past 12 months. Some 12 or 24 months ago, in excess of 80 per cent of office vacancies in the city centre were re-let within six months, but the average re-letting period has now increased dramatically.

The rise in the supply of office vacancies in the older building stock in the city centre has brought on a slight reduction of market rent levels and especially property at more secondary locations is likely to suffer a sharp decline. We expect stagnant office rents in the new developments on the harbour front, i.e. hardly rising above their present level of around DKK 1,700 per sqm p.a. exclusive of operating costs.

Needless to say, a market with an ample supply of office space at good locations will see rent levels coming under pressure.

The gap between the prime office rent and the average rent on leases of a secondary quality

and at secondary locations has been more or less constant in the last few years. However, the gap has now widened again as a natural consequence of the weaker letting market.

The deteriorating office user market has caused a considerable rise in office vacancy rates, both in the city centre and in the Greater Copenhagen area in general.

As more accurate reports are now available, previously published vacancy rates have been adjusted back in time in regard to the actual office vacancy in the Greater Copenhagen area. Previous registrations of vacant space failed to include vacancy registrations by minor agencies. The data adjustments have also affected the time series data for net absorption. On average, the registered vacancy has thus increased by 120 bp.

Office vacancies in the city centre have thus risen from approximately 170,000 sqm to

approximately 240,000 sqm. In Greater Copenhagen in general, vacancies have increased from approximately 300,000 sqm to approximately 635,000 sqm with a slightly upward trend in 2003.

Nevertheless, in spite of this dramatic development and the somewhat gloomy prospects, even a moderate improvement in market trends combined with a reduced number of new construction starts will mean that the office vacancies may be absorbed within a reasonable period of time.

#### The Ørestad development scheme

Contrary to the general market sentiment, development activity in the Ørestad continues at a rapid pace. In the *University area* in the northern end of Ørestad, construction on the 110,000 sqm development for the *Danish Broadcasting Corporation (DR)* is due to start soon.

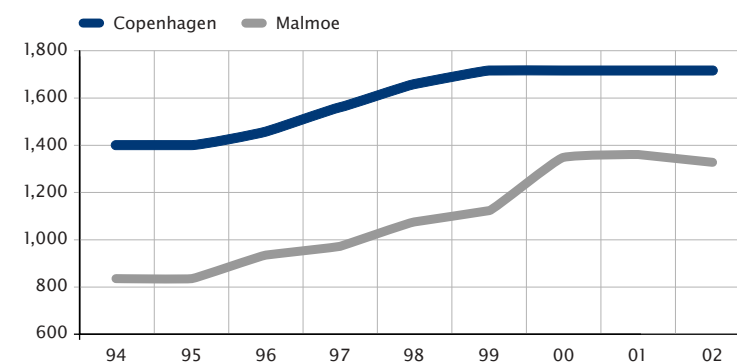
In central Ørestad, *Ørestad City*, construction has started on *Field's*, a 70,000 sqm shopping centre. Furthermore, Norwegian pension fund *KLP* has also started a 30,000 sqm office development and finally *NCC*, the construction company, has completed the construction of a new multi-tenant office building, some 50 per cent of which is let to *Masterfoods*.

#### Other office development opportunities

Other development projects at attractive locations in Greater Copenhagen are:

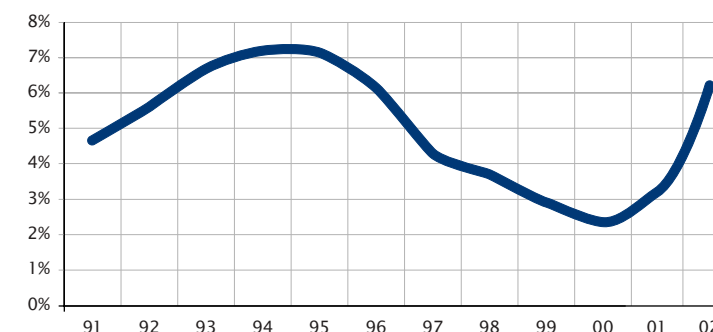
- *Ny Tøjhusgrunden*, next to SAS Radisson Scandinavia, where Norwegian developer *HARO* is ready to start a 22,500 sqm office scheme.
- *Havnestad*, a waterfront site on the western part of Amager where domestic developer *SjælsøGruppen* has acquired substantial building rights to be developed in a joint venture with *Doughty Hanson*.

Prime office rent (DKK/sqm/annum)



Market expectations 2003, Copenhagen ⊕  
Market expectations 2003, Malmoe ⊖

Overall office vacancy rate, Copenhagen



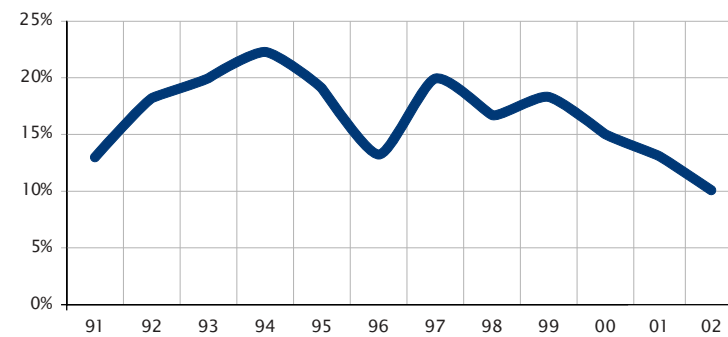
Market expectations 2003 ⊕

- *Fisketorvet*, a waterfront site immediately south of the city centre where *Skanska* may develop 100,000 sqm.
- The *Danlink* site in Nordhavnen (the north end of the harbour) to be developed for office and residential purposes by a consortium of *TK Development* and the *Port of Copenhagen*.
- *Sydhavnen* (the south end of the harbour) where a number of developers offer built-to-suit office projects.
- *Scanport*, a 100,000 sqm office development near Copenhagen Airport, to be developed by *Skanska*.

Similarly, development projects in Malmoe are:

- The *SAAB* factory located in *Västra Hamnen* will be redeveloped into 35,000 sqm of office space by *Diligentia*.
- The area of *Gyllenstjärne* in central Malmoe will be developed into 15,000 sqm of mixed office, residential, retail and hotel space by *NCC*.
- *NCC* and *Midroc Project Management* hold an area in *Västra Hamnen* for development into 50,000 sqm of office, residential and hotel space.

Overall office vacancy rate, Malmoe



Market expectations 2003



## THE COPENHAGEN CBD OFFICE MARKET

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

- CBD office vacancy rates on the rise
- CBD office rents have dropped, but are now stabilising
- A few office buildings in the city centre are now being converted for other use

Due to the quite considerable number of tenant relocations from the inner city to new waterfront locations in recent years, the CBD (Central Business District) vacancy rates have increased proportionately more than suburban vacancy rates. Yet, suburban vacancy rates stand at approximately 85 bp above CBD vacancy rates.

Previously, the CBD office vacancy rate was extremely low, viz. around 1.4 per cent. The effects of the relocation trend are now beginning to show: More than 100,000 sqm of space has been registered to be or become vacant during the first six months of 2003, pushing the vacancy rate to as high as 5.25 per cent.

Needless to say, the increased vacancy is primarily conditioned by the state of the market, although to some extent CBD vacancy may in fact well turn out to be a structural problem that an economic upturn will not eliminate.

Many large-scale office occupiers demand space in up-to-date buildings that offer great flexibility, the possibility of space-efficient open-plan offices and better conveniences, including ventilation, cooling and parking facilities.

Most available office premises in the city centre fail to meet or cannot easily be renovated to meet such tenant demands. As a result, the rise in CBD office vacancy may well turn out to be more of a long-term phenomenon, which again may motivate landlords to reconsider whether to convert office premises to attractive residential premises that appear to be in steadily growing demand. In fact, the first sporadic signs that such considerations are underway in the CBD are now being recorded.

Indeed, a few office buildings are now being redeveloped for other use. For instance, a major property is being converted into a hotel at Rådhuspladsen across from City Hall.

Moreover, it is to be expected that many small or medium-sized office leases in the city centre that are deemed to be below average in terms of suitability for office premises will be converted into residential space over the next few years. Several factors, however, obstruct these conversion schemes, including the lack of VAT exemption, and especially newly refurbished property will not be able to command rents as residential units that will match office rents.

Prime rents in the harbour areas are expected to stabilise at a level of around DKK 1,700 per sqm p.a. exclusive of operating costs. There seems to be no immediate prospect of any rent increases on up-to-date, newly constructed office leases at prime locations.

### (1) The Government District near the parliament buildings

Government departments, etc. exclusively occupy this part of central Copenhagen. Thus, an office letting market does not exist in this part of the city.

### (2) The pedestrian area

This medieval part of Copenhagen offers the most prestigious retail locations in the city. Office premises are generally small and located on upper floors in older buildings and this area should not be considered a prime office location. Virtually no parking facilities are available in this area.

The new Metro station that opened at Nørreport Station in late 2002 will provide the area with access to Frederiksberg, Copenhagen Airport, Ørestad and Sweden. This means that the area around the Metro station will become a part of the pedestrian area.

Recent lets in the area involve a number of minor tenancies, e.g. to *The Bikuben Foundation*, *Falck Healthcare* and others.

### (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, Danske Bank.

Especially Holmens Kanal and Kongens Nytorv are considered prestigious office locations, primarily for banks and other financial institutions. In addition, government institutions unable to find premises within the Government District tend to locate in this area.

### (4) Frederiksstaden

Located around the Queen's residence, Amalienborg Palace, to the north of the medieval part of Copenhagen, Frederiksstaden is traditionally considered a significant and prestigious CBD office area. The office stock generally consists of period mansion buildings or palace style buildings, many of which have been renovated to high standards. Law firms, financial institutions, shipping companies and organisations traditionally dominate the area.

Vacancy rates have increased substantially in the area after several law firms and other tenants have relocated elsewhere.

Recent new office lets in this area include *The Danish Ministry for Research* with 6,000 sqm, *DDB Needham* with 3,700 sqm, and *ISS* with 3,600 sqm, all in Bredgade. Furthermore, the *Maersk Group* has announced its plans to extend the head-office premises at Amaliegade/Esplanaden by approximately 14,000 sqm of new office space.

### (5) The Rosenborg area

This centrally located office area, close to the pedestrian streets and enjoying easy access

from Nørreport Station, remains a good office location for a broad range of tenants, including the media, banks, government and quasi-government organisations and embassies. A major advantage of this area is the availability of larger lot sizes of relatively modern first-class office space with adequate parking facilities.

### (6) The City Hall and Central Station area

Much of this area was developed in the 1960s and thus contains a considerable number of large-scale, relatively modern buildings with underground parking facilities.

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

The area has been hard hit by relocations, especially by large law firms moving to new office premises in the northern harbour areas.

Recent transactions include *Industriens Pension*, who acquired a 4,000 sqm office building for owner-occupation. In addition, law firm *Lett & Co* has rented approximately 3,000 sqm in the area. Finally, it should be mentioned that approximately 8,000 sqm of vacant office space at the City Hall Square is being redeveloped into a hotel, operated by domestic *Arp-Hansen Group*.

### (7) The harbour areas

The harbour areas with excellent traffic connections to the motorway network and Copenhagen Airport should currently be considered the most important CBD areas.

The harbour areas are characterised by highly prestigious first-class development schemes that reflect a high rent level. The whole area has been redeveloped over the past 6 to 8 years but there are still a number of individual sites left. The most attractive office locations are *Nordhavnen* to the north, the inner harbour area of *Christiansbro* as well as *Kalvebod Brygge* to the south.

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

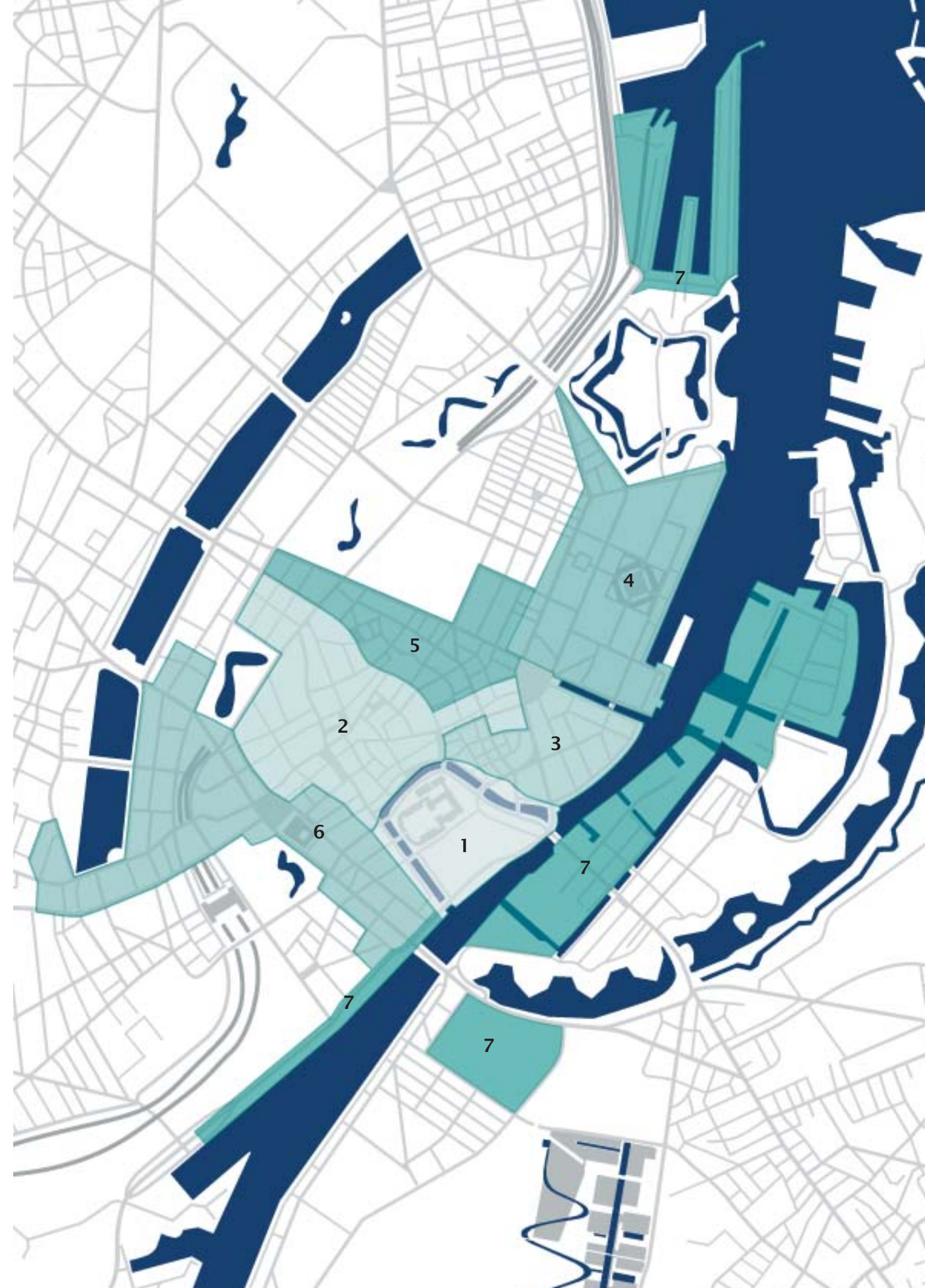
Development activity is still going on in Nordhavnen, where law firm *Plesner Svane Grønberg* has signed a pre-let agreement for 13,000 sqm.

On the other hand, the *Kalvebod Brygge* area is to some extent suffering from unoccupied, newly constructed office buildings. *The Municipality of Copenhagen*, however, recently rented 3,600 sqm in the area.

Rent levels

Prime rent levels	(DKK/sqm/annum)				Change	Market expectations
	1999	2000	2001	2002		
(Exclusive of operating costs)					2001-02	2003
(1) Government District	N/A	N/A	N/A	N/A	N/A	N/A
(2) Pedestrian area	1,150	1,200	1,300	1,250	-4%	⊕
(3) Banking District	1,500	1,500	1,500	1,400	-7%	⊕
(4) Frederiksstad	1,400	1,500	1,500	1,350	-10%	⊕
(5) Rosenberg area	1,400	1,450	1,450	1,300	-10%	⊕
(6) City Hall and Central Station area	1,500	1,500	1,500	1,350	-10%	⊕
(7) Harbour areas	1,700	1,700	1,750	1,700	-3%	⊕

Secondary rent levels	(DKK/sqm/annum)				Change	Market expectations
	1999	2000	2001	2002		
(Exclusive of operating costs)					2001-02	2003
(1) Government District	N/A	N/A	N/A	N/A	N/A	N/A
(2) Pedestrian area	950	1,000	1,050	1,000	-5%	⊕
(3) Banking District	1,200	1,250	1,300	1,200	-8%	⊕
(4) Frederiksstad	1,150	1,250	1,250	1,150	-8%	⊕
(5) Rosenberg area	1,050	1,100	1,150	1,050	-9%	⊕
(6) City Hall and Central Station area	1,200	1,200	1,200	1,150	-4%	⊕
(7) Harbour areas	1,400	1,450	1,475	1,350	-8%	⊕



## THE GREATER COPENHAGEN AND MALMOE OFFICE AREAS

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

- Increasing vacancy to be anticipated in existing non-CBD and suburban office stock
- Drop in new building starts
- The office vacancy rate in Malmoe increased slightly in 2002

Naturally, the slowdown in the letting market also affects the non-CBD and suburban office locations. In particular, the locations predominated by companies in the IT and telecommunications industries, including Ballerup, Birkerød and Sydhavnen, have recorded an upward trend in vacancy rates.

However, other fringe areas are also experiencing an increased supply of office vacancies, even if this supply to a very large extent involves property that is secondary in terms of quality and location. In certain areas the vacancy risk may turn out to be a long-term structural problem.

The number of new building starts has also declined, but new construction activity has by no means come to a halt. As far as new office developments are concerned, some relatively substantial office pre-lets are thus in the pipeline.

To an increasing extent, new construction activity is concentrated in the most important development areas, especially *Kalkbrænderihavnen*, *Tuborg Havn* and *Ørestad*, whereas it seems to diminish considerably in established office locations such as Birkerød, Ballerup and Glostrup.

The office vacancy rate in the Malmoe city centre has gradually decreased since 1997 but recovered slightly in 2002. The vacancy rate in the Greater Malmoe area is still relatively high, about 10 per cent, which reflects a 2.2 per cent increase over last year.

More than 70 per cent of the total stock of office space in the region is located in non-

CBD and suburban areas. The most important locations are listed below. For typical rent levels for the various districts, please see below.

### (1) Østerbro

This area immediately north of the city centre remains a popular office location, dominated by embassies, non-profit organisations and companies in the service industries, including management consultants, etc.

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

In the waterfront development area of *Kalkbrænderihavnen*, *DFDS* has committed to 11,300 sqm. Furthermore, pension fund *PFA* has taken up new space in the area on a sub-lease.

### (2) Nørrebro

The Nørrebro area to the northwest of the CBD is a mixed-use district with extensive residential areas of quite diverse quality and various office locations scattered throughout the area.

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

### (3) Frederiksberg

The Frederiksberg area, to the west of the CBD, is also a mixed-use district with extensive residential areas of quite diverse quality and various office locations scattered throughout the area.

Frederiksberg has a number of attractive development areas located in connection with the new Metro line connecting this area with the Copenhagen city centre and the *Ørestad*.

### (4) Hellerup

The *Tuborg Havn* (Tuborg harbour) area in Hellerup, some 5 or 6 kilometres north of the city, has over the last 5 - 10 years been developed into one of the most prestigious suburban office locations, commanding rents at almost the same level as the inner harbour CBD areas. *Tuborg Havn*, which is being developed into a high quality office and residential area, is located directly on the waterfront and has attracted a number of high-profile occupiers.

Both insurance broker *Willis* and *PriceWaterhouseCoopers* are currently expanding their offices at the old *Tuborg* site, and office development activity in this submarket seems to continue despite the general market conditions.

### (5) Lyngby/Gladsaxe

The Lyngby and Gladsaxe areas, some 10 kilometres north of the city, are strong suburban office locations that benefit from extremely good motorway access, especially from the attractive residential areas north of Copenhagen. Apparently, companies in the IT sector, insurance companies and consulting engineers have a particular preference for these areas. In this connection, it is worth mentioning that *The Technical University of Denmark* (DTU) is located in Lyngby.

Biotech company *CMC Biotech* recently committed to 8,600 sqm in Gladsaxe, where a new biotech park is being developed. In addition, *The National Commission of the Danish Police* has also taken approximately 8,000 sqm of offices in Gladsaxe.

### (6) The north corridor

The north corridor, along the motorway to Elsinore, features a number of office developments in Vedbæk, Hørsholm and Kokkedal, mostly dating from the 1980s.

Recent transactions in the north corridor include a new 5,000 sqm office project for *Rosendahl A/S*. Furthermore, the important research park at Hørsholm is continuously being expanded with new office and lab facilities for new biotech start-ups.

### (7) Birkerød/Allerød

The Copenhagen/Hillerød corridor includes major office areas of varying quality, ranging from rather outdated office buildings from the 1960s and 1970s in Birkerød to modern high-quality buildings.

This corridor is a preferred location for the IT sector and recent letting activity has been rather weak.

Recent transactions include a new 12,000 sqm office development pre-let to *Hewlett-Packard*, as part of the company's plans to consolidate its former *Hewlett-Packard* and *Compaq* offices, both located in the same area.

### (8) 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 still a preferred office location for large-scale high-tech sector users as well as insurance companies. After brisk development activity in 1998 - 2000, the market has recently weakened substantially, and vacancy rates are rising in the area. *Intel* has announced that it will not occupy its new 20,000 sqm office building west of Ballerup, and the property will be offered for sale.

In 2002, *Struers* committed to a new 7,000 sqm development in Ballerup.

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

#### (9) The west corridor

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-priced suburban office location, benefiting from excellent access by both private and public means of transportation. Recent lets here include approximately 8,000 sqm to *GE Capital* and 4,000 sqm to *Scribona Danmark*.

#### (10) Valby

In the 1980s, major development schemes were planned for this former mixed residential and outdated industrial area. Only a few projects were actually completed, however.

It remains to be seen whether a substantial improvement of public transportation in the area with a new S-train station will boost development activity in Valby, currently considered a rather secondary office area.

A major player in the Valby market is pharmaceutical giant *Lundbeck*, who are continuously extending their more than 100,000 sqm facility by an additional 10 - 20,000 sqm per annum.

#### (11) Sydhavnen (the south harbour)

Dominated by telecommunications companies, the Sydhavnen area is close to the CBD and offers excellent traffic connections to the motorway network and Copenhagen Airport. This is considered one of Copenhagen's most important suburban office development areas right now, but the market is currently depressed in the area, following substantial downsizing by *Ericsson*, *Nokia* and *Aston IT Group*.

In 2002, *Citroën Danmark* signed a pre-lease agreement for 7,000 sqm in Sydhavnen.

#### (12) Amager and Ørestad

The island of Amager, which benefits from an excellent infrastructure with motorway and railway connections to the Copenhagen city centre and the bridge to Sweden, the new Metro line, and Copenhagen Airport, is gradually becoming more attractive as a suburban office location. Office development opportunities in the area are substantial, however.

The Central Ørestad area itself has a development potential of some 600,000 sqm. Norwegian pension giant *KLP* is currently developing an office complex of 30,000 sqm in this area, by far the largest speculative development in Greater Copenhagen right now.

Notable transactions in 2002 included the recent commitment on the part of the *Danish Medicines Agency* to 13,000 sqm in Havnestad, developed by *SjælsøGruppen* and *Doughty Hanson*. Furthermore, *Scandinavian Airlines Systems* has announced plans to consolidate its offices in Copenhagen from some 4 locations, all on Amager, into a new development of 35,000 sqm by the airport.

#### (13) Malmoe city centre

The property stock in Malmoe city centre is diverse with several buildings dating from around 1900 together with buildings erected in the 1960s and onwards. Over the last decade, new construction activity has been low, among other things due to the market situation caused by the Swedish property crisis. This has resulted in much of the city's commercial building stock being more than 20 years old. Mostly service companies, banks and other financial agents have set up business in the Malmoe city centre.

In the shopping street of Søndergatan a multi-let 7,500 sqm office building has been let at a relatively high rent level, viz. approximately SEK 2,000 per sqm p.a.

#### (14) Malmoe Västra Hamnen (western harbour)

Originally Västra Hamnen was one of Malmoe's largest industrial areas. The area is still characterised by the buildings erected for *Kockum's* activities and the *SAAB* factory. Today, Västra Hamnen is Malmoe's most important development area, equal in size to the central parts of the city. Several office buildings have been constructed in recent years for owner-occupier use by companies such as *Intentia*, *Sigma* and *Thyréns*.

Approximately 500 apartments were also constructed last year in the northwestern part of the area in connection with the residential property exhibition. State-owned company *Telia* plans to relocate all their employees in Malmoe to the same address in a new 14,000 sqm office building currently under construc-

tion and scheduled for completion in 2004. *The University of Malmoe* has educational facilities in the area, which many companies consider an advantage because of the proximity to a well-educated workforce. Due to the number of new construction starts, Västra Hamnen is the area in Malmoe with the most modern office stock.

#### (15) Malmoe inner ring road area

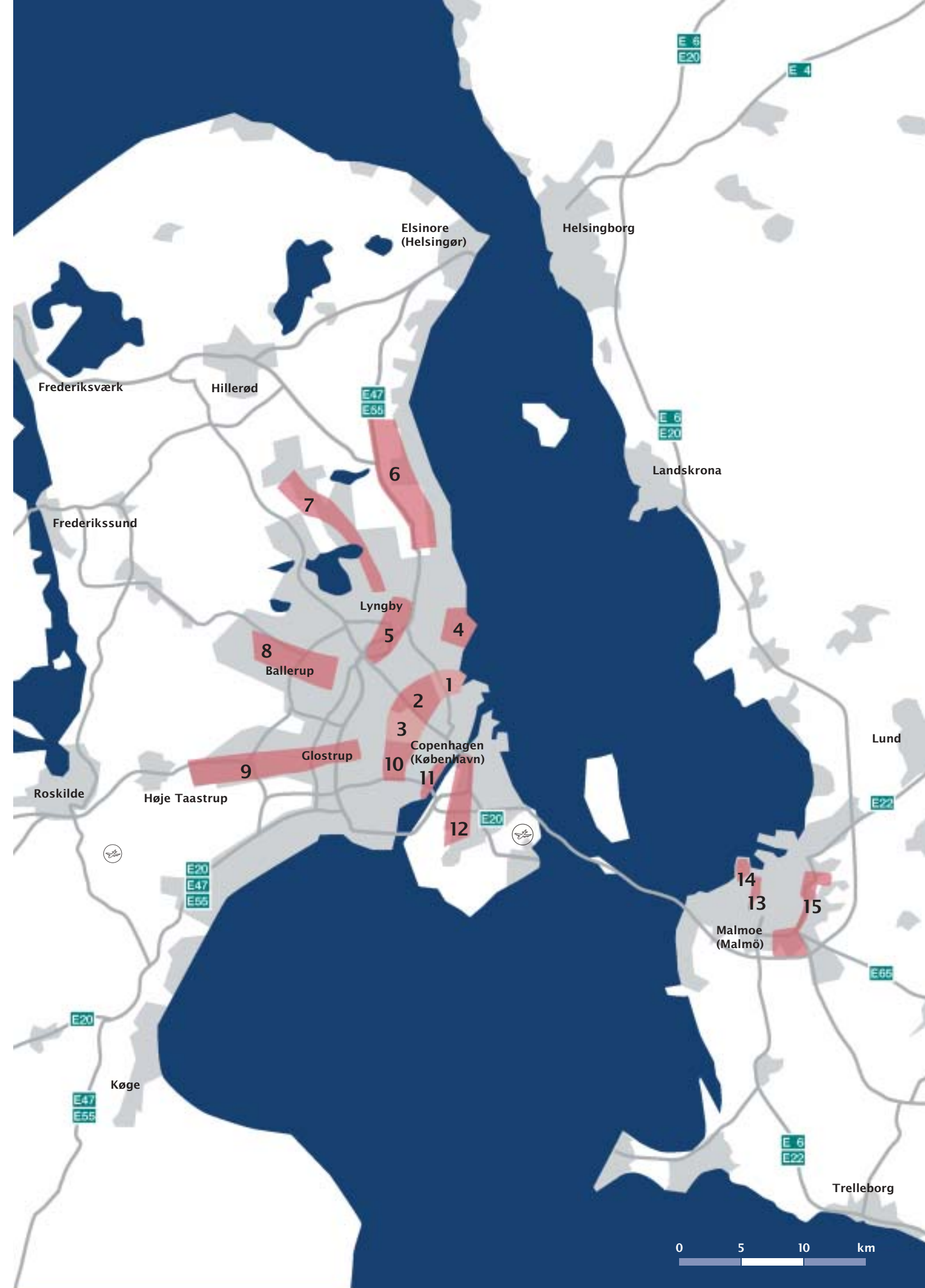
A great many logistics companies have chosen to locate alongside the inner ring road, but this area also has a number of service companies, some of which are in the IT and telecommunications sectors. Some office premises are also located in connection with warehouse and/or industrial premises. The buildings mainly date from the 1970s and 1980s.

Recently Danish *HOH Water Technology* committed to approximately 700 sqm of office space and additionally 400 sqm of warehouse premises.

Rent levels

Prime rent levels	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	1999	2000	2001	2002	2001-02	2003
(1) Østerbro	1,150	1,600	1,600	1,650	3%	↔
(2) Nørrebro	900	1,050	1,100	1,050	-5%	↘
(3) Frederiksberg	900	1,050	1,100	1,100	0%	↔
(4) Hellerup	1,500	1,500	1,550	1,550	0%	↔
(5) Lyngby/Gladsaxe	1,200	1,250	1,300	1,250	-4%	↔
(6) The north corridor	1,050	1,100	1,100	1,000	-9%	↘
(7) Birkerød/Allerød	950	1,050	1,150	1,100	-4%	↘
(8) Herlev/Ballerup	1,050	1,100	1,150	1,100	-4%	↘
(9) The west corridor	950	1,050	1,100	1,000	-9%	↔
(10) Valby	800	850	850	950	12%	↔
(11) Sydhavnen	1,250	1,300	1,400	1,400	0%	↘
(12) Amager/Ørestad	N/A	1,400	1,400	1,400	0%	↘
	(SEK/sqm/annum)					
(13) Malmoe city centre	1,600	1,800	1,850	1,750	-5%	↘
(14) Malmoe Västra Hamnen	1,300	1,400	1,600	1,500	-6%	↘
(15) Malmoe inner ring road	950	1,000	1,100	1,000	-9%	↘

Secondary rent levels	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	1999	2000	2001	2002	2001-02	2003
(1) Østerbro	1,000	1,100	1,150	1,100	-4%	↔
(2) Nørrebro	725	750	775	750	-3%	↘
(3) Frederiksberg	725	750	775	750	-3%	↔
(4) Hellerup	1,150	1,150	1,150	1,100	-4%	↔
(5) Lyngby/Gladsaxe	950	975	975	950	-3%	↘
(6) The north corridor	850	850	900	850	-3%	↘
(7) Birkerød/Allerød	850	850	875	850	-3%	↘
(8) Herlev/Ballerup	800	800	825	800	-3%	↘
(9) The west corridor	725	775	800	775	-3%	↘
(10) Valby	650	700	725	725	0%	↔
(11) Sydhavnen	1,100	1,200	1,200	1,200	0%	↘
(12) Amager/Ørestad	950	1,050	1,050	1,000	-5%	↘
	(SEK/sqm/annum)					
(13) Malmoe city centre	1,100	1,350	1,400	1,250	-11%	↘
(14) Malmoe Västra Hamnen	1,050	1,100	1,200	1,100	-8%	↘
(15) Malmoe inner ring road	750	850	950	850	-10%	↘





## THE OFFICE PROPERTY INVESTMENT MARKET

- Institutional and property company demand for prime office property remains good, fuelled by low bond rates
- With few new pre-let office projects coming to the market investor focus has shifted to operational sale and leaseback arrangements with lease structures in accordance with institutional requirements
- Yield requirements on suburban and secondary properties have increased, but transactions are few

Despite the slowdown in occupational demand in the office sector, prime investment prices and net initial yields remain stable. Investor appetite on the part of both domestic institutionals and property companies, and international investors, is fuelled by low bond rates that have made cash flows from property investments look very attractive.

In light of increasing vacancy rates and lower demand for office space, development activity has dropped, and a very limited number of new office investment products, pre-let on standard 10-year leases, are coming to the market.

Hence, institutional demand for office properties, let on long leases, will focus more on sale

and leaseback arrangements, where the lease agreement may be structured in accordance with institutional requirements for secure long-term cash flow with full annual indexation.

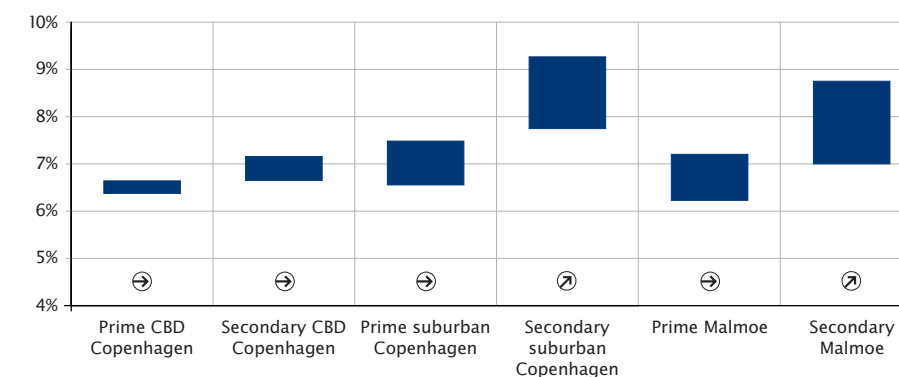
Although a few major Danish institutionals are overweight in property due to losses on the stock markets, most pension funds and life insurance companies are still net buyers, focusing on changing their property asset profile from secondary and management intensive properties to prime buildings with secured long-term cash flows.

In suburban and secondary markets, transaction volumes have dropped substantially with a widening gap between sellers' asking prices and buyers' yield expectations. A surge in transaction activity will only happen once the sellers accept the fact that property investments of a more speculative nature require a solid risk premium in the current market.

Private investors who usually work with an aggressive leverage strategy currently focus more on retail properties, which provide attractive tax depreciation opportunities and are easier to finance. Hence, there are only a relatively small number of buyers in the market for office property of a more secondary

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

Net initial yields, office



nature, most of them looking for major portfolios with good risk diversification that may be acquired at a portfolio discount.

Fully let office properties at Copenhagen CBD locations currently trade at net initial yields ranging from 6.5 per cent to 7 per cent, mainly depending on the quality of the cash flow, whereas in Malmoe prime yields range from 6.25 per cent to 7 per cent. The gap between net initial yields on prime office buildings and the yield on a 10-year government bond has hence widened to 200 bp.

Also in suburban areas, prime net initial yields remain stable, whereas yields on properties of a more secondary nature have risen, in particular for properties with short leases, where investors require a substantially higher risk premium.

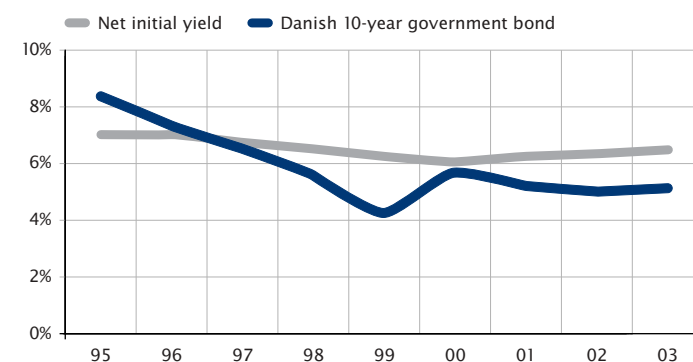
Recent notable transactions in Greater Copenhagen include:

- Property company *Jeudan* acquired from *EjendomsSelskabet Norden* a DKK 528m (€71m) portfolio of CBD office and mixed-use property at an estimated average net initial yield of 6.5 per cent.
- German open-ended fund *DEKA* acquired a 13,000 sqm office development project at

Nordhavnen, pre-let to law firm *Plesner Svane Grønberg*, at DKK 375m (€50m). The net initial yield is estimated to be close to 6 per cent.

- *KP Pension Fund* acquired a 10,500 sqm office development project at Kalkbrænderihavnen north of the city centre, pre-let to *DFDS* on a 10-year lease, at a net initial yield of 6.5 per cent. The investment volume was DKK 250m (€34m).
- *PFA Pension Fund* acquired a 20,000 sqm property at Frederiksberg, immediately west of the city centre, let on a 29-year fully indexed lease to the *Danish Government*.
- Private investors acquired a portfolio of office buildings from Swedish company *Wihlborgs* at an aggregate value of DKK 450m (€60m).
- Institutional investor *ATP* acquired a 14,000 sqm multi-let office building on the Copenhagen harbour front at a net initial yield estimated to be around 7 per cent.
- Property company *DADES* acquired a 10,000 sqm office property in Frederiksstad, let on short leases, at a net initial yield estimated to be around 7 per cent.

Yield spread, Copenhagen

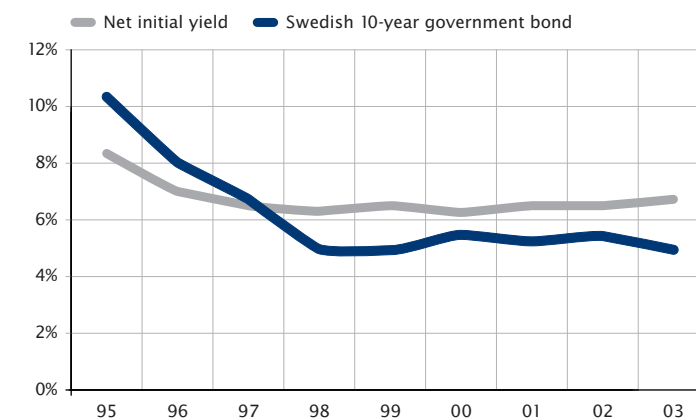


- Developer *SjælsøGruppen* sold an office building in Havnestaden, let to the *Danish Government* on a 10-year lease, to private investors at a price of DKK 240m (€32m) and an estimated net initial yield of approximately 6.5 per cent.
- *Parken Sport & Entertainment* acquired the office blocks at Parken Stadium on Østerbro, let on short leases, from *Jeudan* at an estimated net initial yield of 6.75 per cent. The investment volume exceeded DKK 300m (€40m).
- A private property company, *Essex Invest*, acquired two office buildings at secondary suburban locations, at an estimated net initial yield of 8 per cent. The properties were fully let on short leases.
- *Doughty Hanson* acquired a 50 per cent interest in the 67,000 sqm Havnestad development project from *SjælsøGruppen*. The project will be developed in a joint venture over the next 3 to 5 years.
- A development consortium of *SjælsøGruppen* and *Doughty Hanson* acquired a 72,000 sqm property complex at Frederiksberg from *Royal Scandinavia*. The complex will be redeveloped for office, educational and residential purposes.

Recent notable transactions in Malmoe include:

- *NCC* sold a property in the inner ring road area to *CA Fastigheter* at SEK 210m (€23m). The office space totalled 15,000 sqm and an additional 8,000 sqm of residential space.
- *Contentus* acquired an approximately 3,000 sqm mixed-use building, mainly comprising office space. The transaction sum was SEK 46m (€5m).
- *Wihlborgs* acquired the remaining 50 per cent of a mixed office and industrial building that they owned 50 per cent already. The building comprises a total area of 27,500 sqm. The transaction sum was SEK 120m (€13m) and the net initial yield approximately 9 per cent.
- *Kungsleden* sold two office buildings comprising a combined space of approximately 8,500 sqm at a price of SEK 59m (€6.5m), reflecting a net initial yield of 9 per cent. The properties were sold to *Drott*, one of the largest property companies in Sweden.

Yield spread, Malmoe



## THE RETAIL PROPERTY MARKET

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

- Private consumption showing positive trends despite dampened consumer optimism
- Continued rather strong interest for prime high street units from international retailers
- Two or three vacant shops on "Strøget" may indicate that the absolute top rents have peaked
- Average high street rent is expected to increase due to new tenancy act

In both Denmark and Sweden, private consumption has shown positive trends despite the substantial fall in share prices. The collapse on the stock markets has put a dampener on consumer optimism, although it appears not to have reduced their willingness to buy. The favourable development in private consumption is also due to the surge in disposable income that private households have experienced on account of tax relief measures and a stable labour market.

The interest from international and Danish retailers for prime retail units in the pedestrian streets of "Strøget" and Købmagergade in Copenhagen remains strong with rather fierce competition for the best locations. During 2002 *Mango* opened a flagship store, *Benetton* relocated to the absolute best location, Danish *Blue Willis* opened a flagship store at a prime location and *Hunkemöller* leased a shop which is going to open in early 2003.

Although demand is substantial, two or three shops in "Strøget" have nevertheless been vacant for some time now, primarily owing to exorbitant rent expectations on the part of landlords. This may well indicate that the absolute top rents have peaked for Copenhagen high street units. Nevertheless, it is generally expected that the new Danish tenancy act, effective as from 1 April 2003, will result in an increase in the average rents for high street units. The new act opens up the possibility for landlords calling for rent

increases to market level on leases let according to older tenancy agreements.

Throughout the past 30 years, the retail trade has been characterised by rapid structural change resulting from rationalisation, centralisation, the formation of retail chains and the establishment of large-scale shops and shopping centres. This development has gradually changed purchasing patterns – from trade taking place almost exclusively at the local level to extensive regional trade.

Opportunities for new out-of-town shopping centre and retail warehouse developments are still severely restricted. This leaves both developers and retailers with a limited choice and secures a high occupancy rate in existing centres and retail warehouse parks.

One major shopping centre development is *Field's*, a 70,000 sqm shopping centre in Ørestad between the city centre and Copenhagen Airport. The shopping centre, developed by a consortium of domestic player *TK Development* and Norwegian company *Steen & Strøm*, will be anchored by a hypermarket, *OneStop*, owned by domestic supermarket group *Dansk Supermarked*, and a 12,000 sqm *Debenhams* department store. Also *Hennes & Mauritz* has committed to a flagship store in *Field's*.

The retail market in Greater Copenhagen and Malmoe can be divided into a number of sub-categories. For typical rent levels, please see below:

### (1) The high street retail market in Copenhagen city centre

This market is concentrated in the pedestrian street area, "Strøget", running from Rådhuspladsen (City Hall) to Kongens Nytorv, and Købmagergade, linking "Strøget" with Nørreport Station.

This area accommodates both department stores and local as well as major international retailers. The most exclusive part of "Strøget" is located in the area between Kongens Nytorv and Amagertorv. This area has a wide range of high-profile shops offering brands such as Gucci, Louis Vuitton, Hermes, Versace, Donaldson, LaCoste, Donna Karan, Escada, Chanel, Hugo Boss, Sand, Georg Jensen, Bang & Olufsen and Max Mara.

Among international retailers on "Strøget" and Købmagergade are *Zara* with a three-storey flagship store, *Hennes & Mauritz* with two three-storey mega-shops and two minor shops, *Esprit* with two shops, *Diesel*, *Mango* and *Benetton*. Furthermore, *Monsoon* has two shops, a major and a minor unit.

Retail chains dominate the high street area, accounting for approximately 60 per cent of the shop units, and an even greater percentage in terms of space occupied.

The competition for units on both "Strøget" and Købmagergade remains rather strong, and in certain cases key money is paid, even on rack-rented units. This is expected to change during 2003, however, when the new tenancy act comes into force. The main purpose of the act is to make it easier to adjust rents to market level.

### (2) Copenhagen Latin Quarter and Grønnegade area

The Latin Quarter/Grønnegade area encircles the Copenhagen high street area and is predominated by local independent retailers, which occupy approximately 80 per cent of the shops in this area, as opposed to e.g. approximately 40 per cent in the Copenhagen high street area.

Typically, the new trend-setting local retailers have chosen to locate at close proximity to "Strøget" and Købmagergade. The further the distance from these main shopping streets, the less exclusive/trendy the shops tend to be.

Similarly, the area accommodates a characteristically large number of the more exciting cafés and restaurants. In general, restaurants and amusement areas are located at either end of "Strøget", namely in the City Hall/Central Station area and in Nyhavn.

### (3) Other important shopping areas in Copenhagen

There are 5 important retail areas outside Copenhagen city centre, viz. Østerbro, Nørrebro, Frederiksberg, Vesterbro and Amagerbro. Each area represents a local residential area that is characterised by multi-storey housing units and located close to the city centre. Except for Frederiksberg, trade in these areas is predominantly based on local trade.

Frederiksberg differs from the other areas in that it attracts considerable regional trade thanks to its concentration of furniture and kitchen retailers and, in Falkoner Allé, a major concentration of IT related shops targeting private consumers. Also, Frederiksberg accommodates *Frederiksberg Centret*, which is one of the most important local shopping centres, comprising approximately 18,000 sqm of retail space.

Shopping centres also deserving mention are *Amager Centret* at Amagerbro comprising approximately 20,000 sqm of retail space, and *Nørrebro Bycenter* at Nørrebro comprising approximately 12,000 sqm. Both are typical local shopping centres, and especially the centre on Amager has been in operation for quite a number of years.

OFFICE  
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INDUSTRIAL  
MARKET PLAYERS

#### (4) The provincial high street retail markets

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

#### (5) The regional shopping centre market

The regional centres are *Lyngby Storcenter* to the north, *Rødovre Centrum* and *City 2* to the west, *Hundige Storcenter* and *Ishøj Bycenter* to the south and the new *Fisketorvet* close to the city centre.

The Fisketorvet shopping centre opened in October 2000 on a harbour front site just south of the city centre. Rodamco Sweden manages the 52,000 sqm centre. Among its anchor tenants are *CinemaxX*, *Hennes & Mauritz*, *Stadium*, *Føtex* and *Electric City*.

Although often located near a train station, regional centres mainly appeal to customers arriving by car. The regional centres focus on trade through specialised shops to a wider degree than the local centres, and also offer a wider range of convenience goods. Furthermore, they often have a wide selection of restaurants and general entertainment facilities, and therefore often attract customers in groups – the most obvious example being families. Consequently, these centres boast a very substantial number of parking spaces. The rented space of the regional shopping centres ranges between approximately 26,000 sqm and 62,000 sqm, which means that the average rented space is around 41,400 sqm. The average turnover per square metre is approximately DKK 38,000.

Local centres or local shopping areas do not compete very much with regional centres. Rather, the two complement each other, cover-

ing different consumer needs. The strength of local centres is that they offer an opportunity for daily purchases of convenience goods, while the strength of regional centres is their range of specialities.

#### (6) The local shopping centre market

Local centres are typically located close to S-train stations as most of their trade is in convenience goods. Shopping must be easy for consumers who do not have a car. Local centres are therefore predominated by convenience stores, typically supermarkets and a few specialised shops, e.g. bakers, greengrocers and butchers.

In addition, local centres contain a number of the most common specialised shops, such as fashion shops, sportswear and sports equipment shops, radio and television shops and toy shops. Generally speaking, specialised shops in these centres carry a limited selection that includes only the most common articles available in the product area in question.

The rented space in local shopping centres typically ranges between approximately 4,300 sqm and 20,000 sqm, the rented space averaging approximately 9,800 sqm. In 2002, the average turnover per square metre was approximately DKK 25,000.

#### (7) The retail warehouse market

The retail warehouse concept is a popular, albeit only moderately developed, concept in the Copenhagen market. Prime locations are two motorway locations, in *Lyngby/Gentofte* to the north of the city, and in *Taastrup* to the west, where retail warehouse parks, anchored by *Ikea*, have been established.

The restrictions imposed on further development of out-of-town retail centres also affect the retail warehouse market, stipulating an upper limit of 3,000 sqm for supermarkets and a maximum sales area of a mere 1,500 sqm for non-food retailers.

#### (8) The retail market in Malmoe city

The retail market in Malmoe is concentrated around the pedestrian streets of *Södergatan* and *Södra Förstadsgatan* between *Stortorget* to the north and the *Triangeln* shopping centre to the south.

There has been an improvement in the range of shops and large retail chains such as *Hennes & Mauritz*, *Duka* and *Sisters*, are present here, and brands with own outlets, like e.g. *Hugo Boss* and *Armani*, have established shops here in recent years.

The turnover for the city trade in Malmoe was approximately SEK 1.8bn in 2001, a 4.6 per cent increase over 2000. Prime location vacancy rates have been low for a long time now, even while the office vacancy rates rose in the early 1990s.

Restaurants and cafés are especially located in the area around *Lilla Torg* and in and near the shopping centre *Hansacompaniet*.

New international retailers at high street locations are *Max Mara* and *Bang & Olufsen*. Also Swedish retailer *Granit* opened a shop in the Malmoe high street area in 2002.

#### (9) The shopping centre market in Malmoe

Regional shopping centres are located around Malmoe. Ten kilometres north of the city, in *Burlöv*, lies *Burlöv Center*, a large-scale shopping centre where several of the major retail chains have outlets. A very well-established shopping centre, called *Center Syd*, is located in *Löddeköpinge*, approximately 30 kilometres north of Malmoe. The area has expanded substantially in recent years and a considerable number of new shops have opened in the area. In September 2002 a new shopping centre, *Nova*, opened on the northern outskirts of Lund. The supply mostly comprises clothing shops as well as a few electronics shops and similar outlets. Further north, just outside Helsingborg (approximately 70 kilometres from Malmoe), lies *Väla Centrum*, also a well established shopping centre.

As far as local shopping centres are concerned, the most central shopping centres in Malmoe are *Caroli City*, *Hansacompaniet* and the *Triangeln* at the end of the pedestrian part of *Södra Förstadsgatan*. Here, small retail units mix with the major clothing shops. Shopping centres competing with the city retailers are *Mobilia* and *Jägerso* where major shops like *Jysk Bäcklager*, *OnOff* as well as major food chains and others are represented.

Several shopping centres are now located within a short distance of each other, a factor that may have a negative impact on rent levels and vacancy rates due to the increased competition. This mainly applies to the older shopping centres that have not undergone any improvements and therefore have an outdated and less appealing layout.

## Copenhagen

Typical retail rent levels		(DKK/sqm/annum)			Market expectations 2003
(Exclusive of operating costs)		2000	2001	2002	
(1) Copenhagen High Street (upper end)	Area up to 100 sqm	12,000-17,000	12,000-18,000	12,000-19,000	↔
	Area 100-300 sqm	9,000-12,000	9,000-12,000	9,000-14,000	↔
	Area 300 sqm+	5,000-10,000	5,000-10,000	6,000-12,000	↔
Copenhagen High Street (lower end)	Area up to 100 sqm	6,500- 9,000	6,500- 9,000	6,500- 9,000	↘
	Area 100-300 sqm	4,000- 6,000	4,000- 6,000	4,000- 8,000	↘
	Area 300 sqm+	3,500- 5,500	3,500- 5,500	3,500- 5,500	↔
(2) Copenhagen City Latin & Grønnegade area	Area up to 300 sqm	1,000- 2,950	1,000- 3,100	1,200- 3,300	↔
	Area 300 sqm+	900- 1,650	1,000- 1,750	1,200- 1,800	↘
(3) Copenhagen other important shopping areas	Area up to 300 sqm	1,000- 2,600	1,000- 2,700	1,000- 2,800	↔
	Area 300 sqm+	900- 1,650	1,000- 1,750	1,000- 1,800	↔
(4) Provincial High Street	Area up to 100 sqm	1,800- 3,000	1,800- 3,500	1,800- 3,600	↔
	Area 100-300 sqm	1,500- 2,300	1,500- 2,600	1,500- 2,600	↔
	Area 300 sqm+	900- 1,600	900- 1,800	900- 1,800	↔
(5) Regional shopping centres	Anchor food	1,200- 1,500	1,200- 1,600	1,200- 1,600	↘
	Anchor non-food	1,300- 2,000	1,400- 2,200	1,400- 2,200	↘
	Area up to 100 sqm	1,800- 4,000	2,000- 8,000	2,000- 8,000	↔
	Area 100-300 sqm	1,500- 3,500	1,500- 5,000	1,500- 5,000	↔
(6) Local shopping centres	Anchor food	950- 1,700	1,000- 1,800	1,000- 1,800	↔
	Area up to 100 sqm	1,300- 2,000	1,300- 2,200	1,300- 2,500	↔
	Area 100-300 sqm	1,100- 1,800	1,100- 1,900	1,100- 2,000	↔
	Area 300 sqm+	800- 1,500	800- 1,600	800- 1,650	↔
(7) Retail outlets	Area 300 sqm+	1,000- 1,600	1,000- 1,700	1,000- 1,700	↔

## Malmö

Typical retail rent levels		(SEK/sqm/annum)	Market expectations 2003
(Exclusive of operating costs)		2002	
(8) Malmö City High Street	Malmö City High Street	2,250- 5,250	↔
	Malmö City secondary location	1,200- 2,200	↔
(9) Regional shopping centres	Regional shopping centres	1,800- 2,500	↔
	Local shopping centres	1,300- 3,000	↔



## THE RETAIL PROPERTY INVESTMENT MARKET

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

- Record high investment turnover in the high street market totally dominated by tax-driven limited partnerships
- High street prime yields down to 5.5 - 5.75 per cent
- Other yields remain unchanged

As in 2001, falling interest rates in 2002 gave the tax-driven limited partnerships (in Denmark called *kommanditselskaber* and abbreviated K/S) a greater incentive to invest in the retail investment market. Especially the high street market experienced a record high level of investments on the part of tax-driven limited partnerships, both in terms of price levels and investment volume. The partnerships generally work with a very high leverage, making financing costs a key concern.

Unable to benefit from the same tax depreciation rules, domestic institutions are demanding higher yields and are thus being more or less pushed out of these markets, even in the market for property with an investment volume in excess of DKK 150m.

International investors like *Eurocommercial*, *Redevco* and *Pricoa*, who have previously been active in the high street markets, have sold out to limited partnerships. Some of these have stated that they will turn to the shopping centre market instead, which is considered to offer better opportunities for adding value through active management.

Prime yields have remained unchanged, except for the Copenhagen high street market, where prime yields have fallen by 25 - 50 bp.

In the spring of 2002, the efforts to sell domestic department store chain *Magasin* were abandoned. But the entry of *Debenhams* into the Danish market may put additional pressure on troubled *Magasin*, and could lead to changes in both *Magasin's* ownership and its retail concept. Still on the market, however, is the high street department store *Illum*, owned by *Magasin*.

Recent notable transactions in Greater Copenhagen include:

- The sale and leaseback of the three high street flagship stores at *Amagertorv 4, 6 and 8* with *Holmegaard*, *Royal Copenhagen* and *Georg Jensen* as tenants stood out as one of the most notable transactions. The properties were sold at a yield of less than 6 per cent to tax-driven limited partnerships.

- Several other high street properties, including *Østergade 3 - 5* (primary tenant *Bang & Olufsen*), *Østergade 22* (multi-let), *Østergade 40* (let to *Sand*), *Østergade 42* (primary tenant *Blue Willis*), *Amagertorv 2* (let to *Benetton*) and *Vimmelskaftet 28* (let to *ZARA*) were sold to tax-driven limited partnerships at net initial yields ranging between 5.75 and 6 per cent – and some even around 5.5 per cent calculated on the actual rent.

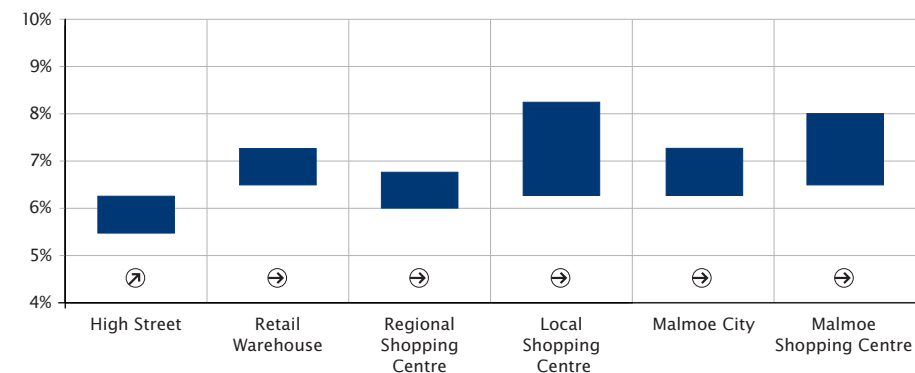
- In the Greater Copenhagen area, *DADES* acquired 3 shopping centres, comprising approximately 36,500 sqm in total, at a price of DKK 663m (€89m). Its shopping centre acquisitions included a substantial interest in the regional shopping centre *Hundige Storcenter* and the two local shopping centres *Holte Midtpunkt* and *Frihedens Butikcenter*.

Recent notable transactions in Malmoe include:

- *Mobilia Shopping Centre* in central Malmoe was sold to *Atrium Fastigheter* at a price of SEK 555m (€61m). The 34,000 sqm shopping centre with over 70 shops was sold by life insurance company *Folksam*.

OFFICE  
RETAIL  
INDUSTRIAL  
MARKET PLAYERS

Net initial yields, retail



## THE INDUSTRIAL PROPERTY MARKET

OFFICE  
RETAIL  
**INDUSTRIAL**  
MARKET PLAYERS

- Development activity has slowed down and is concentrated in the south corridor
- Prime rents remain stable
- Increased vacancy in properties of secondary quality has put rents and values under pressure

For a decade, the industrial sector in Copenhagen and Malmoe has been undergoing a transition from traditional production to distribution and high-tech industry. This transition has had and will continue to have a major impact on the industrial property market.

Although the overall vacancy rate in the industrial property market remains rather low, vacancy rates are increasing in a number of industrial areas with buildings from the 1960s, and rents and values are under pressure.

Despite the relatively small number of new state-of-the-art distribution facilities, development activity in the industrial sector has slowed down, primarily due to the general economic situation. Also in the biotech sector, which over the last couple of years has been booming, property development activity has slowed down in line with the lack of available venture capital for the biotech sector.

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

Net absorption figures have been adjusted back in time as previous industrial vacancy data did not include vacancy registrations by minor agencies.

Some of the preferred locations are listed below. For typical rent levels, please see below:

### (1) The Birkerød/Allerød/Hillerød corridor

Benefiting from a highly educated workforce, the area is especially popular with companies in the high-tech industry, e.g. data communications, software development, medtech and biotechnology.

In line with the international crisis in the IT and telecommunications industries, the industrial property market in this area has witnessed weak activity. Furthermore, the activity in the biotech industry in Hillerød has, at least temporarily, slowed down due to the fact that more biotech companies find it increasingly difficult to attract venture capital for further expansion.

### (2) The Ballerup/Måløv area

The western part of Ballerup and the Måløv area are popular locations for light manufacturing and distribution. No major transactions have, however, been recorded recently.

### (3) The Brøndby/Glostrup/Herlev area

This area, west of Copenhagen, along the ring motorway, was to a large extent developed between the 1960s and the 1980s, and has traditionally attracted a wide range of manufacturing companies. Currently, the vacancy rate is increasing in the area and rents have come under pressure.

Notable transactions in 2002 included some 15,000 sqm for *Royal Scandinavia* in Glostrup, a redevelopment of a former *Coca Cola* factory.

### (4) The south corridor

The areas along the south corridor enjoy excellent motorway connections to Copenhagen, Copenhagen Airport, Sweden, and the rest of Denmark. Hence, these areas are especially popular with the distribution industry and manufacturing companies who focus on road distribution aspects. Domestic discount retailer *Netto* is currently constructing a new 50,000 sqm distribution facility in the area.

### (5) Malmoe Östra Hamnen (east harbour)

The east harbour area in Malmoe is dominated by warehouses and light production facilities. A number of large logistics companies, including *ASG* and *Bilspedition*, are located in the area.

### (6) Malmoe, Bulltofta/Valdemarsro

A substantial number of DIY stores and car dealers are located in this area along the ring road around the Malmoe city centre. Furthermore, IT and other service companies are typical occupiers in the area, and many of them combine office, warehouse and light production facilities.

*The Swedish Work Environment Authority (Arbetsmiljöverket)* recently relocated to the area from their Malmoe city premises. The new premises comprise approximately 1,400 sqm of office space.

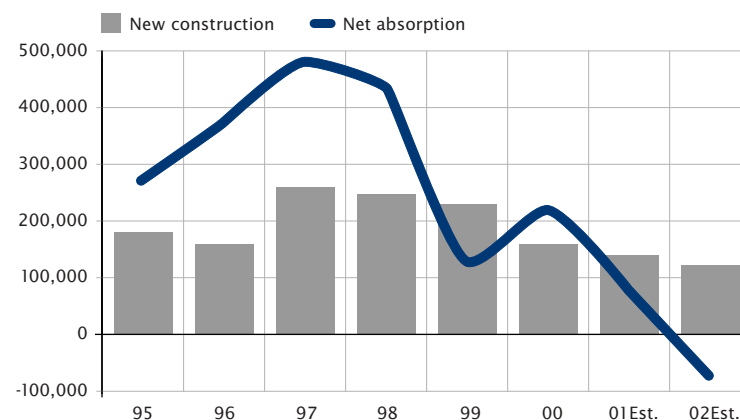
### (7) Malmoe, Fosie

A great number of well-known companies are located along Agnesfridsvägen, the central road in the area. Most of the building stock was developed in the 1970s and 1980s. The vacancy rate in the existing stock is low, but there are building sites available in Fosie.

A major manufacturer of dental hygiene products *TePe Munhygienprodukter* recently committed to approximately 8,000 sqm previously occupied by multimedia manufacturer *SDC*.

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Net absorption and completed construction (sqm industrial space)



Rent levels

Prime rent levels Copenhagen	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	1999	2000	2001	2002	2001-02	2003
(1) Birkerød/Allerød/Hillerød	525	525	525	525	0%	↔
(2) Ballerup/Måløv	525	525	525	525	0%	↔
(3) Brøndby/Glostrup/Herlev	525	525	525	525	0%	↔
(4) The south corridor	550	550	550	550	0%	↔
	(SEK/sqm/annum)					
(5) Östra Hamnen	450	500	500	500	0%	↔
(6) Bulltofta/Valdemarsro	850	850	850	850	0%	↔
(7) Fosie	600	650	650	650	0%	↔

Secondary rent levels Copenhagen	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	1999	2000	2001	2002	2001-02	2003
(1) Birkerød/Allerød/Hillerød	375	400	400	375	6%	↻
(2) Ballerup/Måløv	425	425	400	400	0%	↻
(3) Brøndby/Glostrup/Herlev	400	425	400	375	-6%	↻
(4) The south corridor	400	400	400	400	0%	↔
	(SEK/sqm/annum)					
(5) Östra Hamnen	250	300	300	300	0%	↔
(6) Bulltofta/Valdemarsro	450	500	500	500	0%	↔
(7) Fosie	300	350	350	350	0%	↔





## THE INDUSTRIAL PROPERTY INVESTMENT MARKET

- Low investment turnover in the industrial sector, but sale and leaseback activity is increasing
- Despite low interest rates, net initial yields for prime warehouse and industrial buildings, let on 10-year leases, remain stable at around 7.5 per cent
- The increased vacancy risk in secondary properties, let on short leases, has caused secondary yields to rise substantially

Traditionally dominated by owner-occupiers, the industrial property investment market is relatively illiquid and attracts little interest from institutional investors. Companies preferring to rent rather than own their business premises are increasingly pursuing alternative opportunities, such as leases more of a financial nature with property leasing companies, etc.

Private investors including tax-driven limited partnerships, who have traditionally made up the largest investor segment within industrial property investments, are still active in the industrial market, where it is often possible to acquire investment property at net initial yields substantially above financing costs. Such investors do, however, find it increasingly difficult to achieve financing, unless the income is secured by a long lease. Hence, yields on properties with short leases have been forced up.

Recent notable transactions in Greater Copenhagen include:

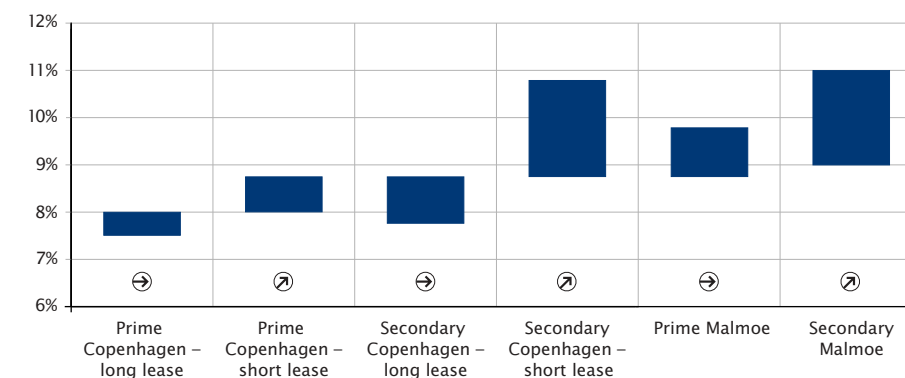
- A consortium of private investors has acquired a modern industrial building, let to *OFS Fitel* on a 15-year lease, at a net initial yield of approximately 8 per cent.
- A limited partnership has acquired a modern 4,000 sqm industrial building south of Copenhagen, let on a 10-year lease, at a net initial yield of approximately 7.5 per cent.

Recent notable transactions in Malmoe include:

- The property company *Briggen* acquired an 8,300 sqm industrial building with the pharmaceutical company *Bioglan* as one of the tenants. The transaction sum was SEK 42m (€5m).
- *Dagon Förvaltning* acquired a large industrial complex buildings from *Austria Tabak* for SEK 100m (€11m). *Austria Tabak* leased approximately 75 per cent of the approximately 100,000 sqm premises back.
- Two of the properties in the property portfolio that *Goldman Sachs' Whitehall Mutual Fund* acquired from *NCC* were located in Malmoe, viz. a modern office building located in the inner harbour area, comprising approximately 1,600 sqm, and an industrial complex of buildings, comprising approximately 10,000 sqm. The total portfolio in Sweden was sold at a price of SEK 3,950m (€435m).

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Net initial yields, industrial/warehouse



## MARKET PLAYERS

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- Tax laws favour institutional investment in direct property holdings
- Property companies focus on development potential in property acquisitions
- Private investors, including tax-driven limited partnerships, dominate the retail market

All income and capital gains for *domestic institutions* are subject to a tax rate of 15 per cent, whereas the general corporate tax rate of 30 per cent is levied on property companies. Institutional property investments via *property companies* are subject to double taxation. As a result, institutions prefer more tax efficient structures as direct investments or indirect investments via investment vehicles with tax transparency. Institutional investors can only bypass this double taxation on indirect investments if they own the property company outright.

Because the Danish tax system distinguishes between various types of property investors, each of the various segments of the investment market requires an individual approach to property investment.

### Pension funds and life insurance companies

*Nordea Ejendomsinvestering* was formed in 2002 (part of the *Nordea* group) to continue the activities of the former *Tryg Ejendomme*. After having bought *Danbyg Ejendomme*, *Nordea Ejendomsinvestering* now holds a domestic property portfolio of approximately DKK 14bn, one of the largest in the market. *ATP*, *PFA* and *Danica* (part of *Danske Bank*) also range among the largest institutional investors, all with property portfolios worth DKK 9bn or more. All of these are pension funds.

While *Nordea Ejendomsinvestering* may be considered the largest owner of industrial premises, *Danica* holds the largest portfolio of shopping centres. In excess of 80 per cent of *ATP*'s property portfolio consists of office property.

Other important Danish institutionals such as insurance companies *Codan* and *Topdanmark* have property holdings in the DKK 2.5 - 6bn range. Also with portfolios in this range are *KP Pension* (Municipal Pension Insurance Company) and *the Pension Fund for M.A.s, M.Sc.s and Ph.D.s.* (Magistrenes Pensionskasse).

Finally, a sizeable number of smaller pension funds operate in the property investment market, generally with property assets of between DKK 0.5bn and DKK 2bn.

Generally, the current investment strategies of institutional investors imply the acquisition of prime investment properties, especially in the office sector, with a secure long-term cash flow. In the endeavour to stimulate institutional interest in residential property, a new law taking effect from 1 January 2003 makes investments in new residential developments fully tax deductible in the year of completion. This is intended to channel more investments from this type of investor into residential property. However, residential properties will continue to constitute a very modest share of the typical major institutional investor's portfolio. Medium-sized and smaller institutional investors are more prone to residential property investments.

The continued bear sentiment in the stock markets has not changed the fact that most institutionals consider themselves underweight in property with an overall average of approximately 10 per cent of the portfolios being positioned in property.

### Property companies

The development potential of property is a focal point for property companies. Thus, properties of a secondary nature, often with a potential for increasing values through active management, are currently in demand, especially from property companies.

The most significant property company is considered to be *DADES* with a portfolio of DKK 6bn. This is a private company owned by a pool of institutional and private investors. The most significant listed property companies are *Jeudan* and *Nordicom*.

The share prices of listed property companies rarely reflect the market value of their underlying property portfolios. Additionally the tax system renders indirect property investments unfavourable to institutional investors. Thus, listed property companies suffer from low liquidity and limited institutional interest.

Consequently, *EjendomsSelskabet Norden*, previously the most dominant property company, was delisted in early 2001. The company was taken private by a consortium of institutional investors, and is in the process of selling off all assets.

### Private investors

For most private investors tax deductibility on properties is a crucial factor in the choice of investment. This demand is being accommodated for properties used for retail, industrial, warehousing, educational and hotel purposes.

The market for private investments has generally been increasing in recent years, attracting varying types of private investors. Some investors invest individually and have quite significant portfolios. However, a substantial part of this market is structured via limited partnerships, so-called *kommanditselskaber* (K/S), where up to 10 individual investors acquire a property in a single-purpose partnership.

Such partnerships are mostly initiated and managed by specialised companies, the two largest being *Keops InvestorPartner* and *EjendomsInvest*, both of whom have assets of DKK 4 - 5bn under management.

### Developers and construction companies

In 2001 *Højgaard & Schultz* merged with *Monberg & Thorsen*, forming *MT Højgaard*, which became the third largest construction company in Scandinavia. The merger was partially in response to the increased competition from the two Swedish owned construction companies *NCC* and *Skanska*.

There are a significant number of medium-sized contractors, with a combined market share considerably lower than the three largest players. To mention a few, *KPC Byg*, *Hoffmann* and *Pihl & Søn* are all important players in the contracting market.

A clear distinction between contractors and developers is not possible. In many cases, products offered by the contractors are related with those of the purely specialised developers.

The most important specialised developers are all listed companies. *TK Development* focus on retail and offices, and are active in Denmark, Sweden and eastern Europe. *SjælsøGruppen* are purely domestic developers specialising in office property. *Keops Development* utilise the inherent synergies of the cooperation with its subsidiary *InvestorPartner*. Both *Skanska* and *NCC* offer services similar to those of the specialised developers.

A factor common to companies in the developer trade is that they do not take on speculative projects. Thus, the developer company delivers a turnkey project to a pre-committed buyer.

Other important developers in Copenhagen are *Nordkranen*, *JM Danmark* and *Akticon*. These companies have relatively small business volumes.

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### Foreign investors

Swedish companies are the most active of the foreign property investors in the Greater Copenhagen area, the three most significant players being *Skanska*, *Diligentia* and *Wihlborgs*.

As part of the Swedish insurance institutional *Skandia Liv*, *Diligentia* holds one of the largest property portfolios in Sweden. *Wihlborgs* also ranks among the largest property companies in Sweden and is a listed property company, unlike *Diligentia*. Both companies' portfolios primarily comprise office space. These Swedish investors focus on secondary property with a potential for increasing value by active management.

The construction company *Skanska* can also be considered one of the most significant foreign investors. *Skanska's* interest in Copenhagen is directly related to its construction operations. Thus, a significant share of its approximate DKK 1.3bn property portfolio is invested in harbour front property.

The major German property company *DEKA Immobilien* entered the market in 2003, acquiring *Plesner Svane Grønborg's* new corporate headquarters, which are currently under construction, for DKK 375m (€50m).

Other foreign investors are expanding their activities in Copenhagen. This category includes *Cargill*, *GE Capital Real Estate* and *Doughty Hanson*. These investors are highly opportunistic and focus on both portfolios of secondary property, development and redevelopment opportunities. Also they are providers of mezzanine financing.

More specialised foreign investors are *Rodamco*, who owns *Fisketorvet* and specialises in retail property investments, as well as *Capona* and *Pandox*, both Swedish companies specialising in hotel property investments.

### Providers of commercial property financing

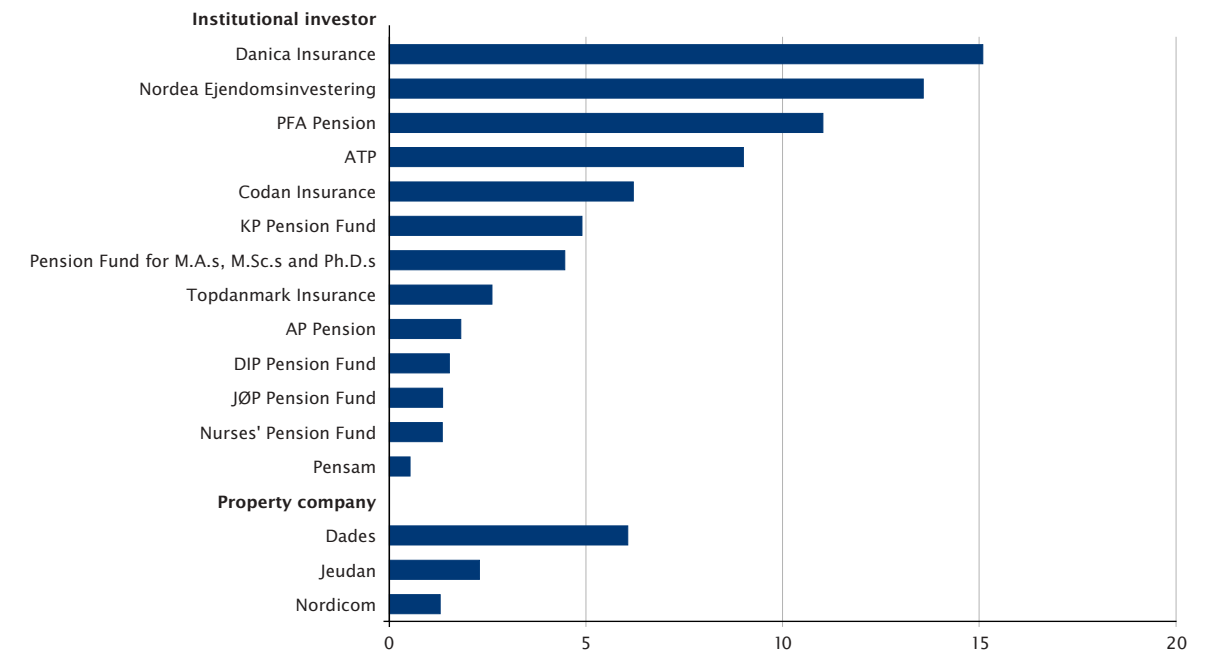
A varied range of enterprises are involved in property financing. The largest Danish providers of commercial property financing are the mortgage-credit institutions. *Nykredit* is the largest mortgage-credit institute in the market. With *Danske Bank's* acquisition of *Realkredit Danmark* in late 2001, *Realkredit Danmark* consolidated its position as Denmark's second largest supplier of financing for commercial property. *BRF Kredit* is third largest.

Other domestic mortgage-credit institutes are *Nordea Kredit*, *FIH Realkredit* (part of *Swedbank*) and *DLR Kredit*.

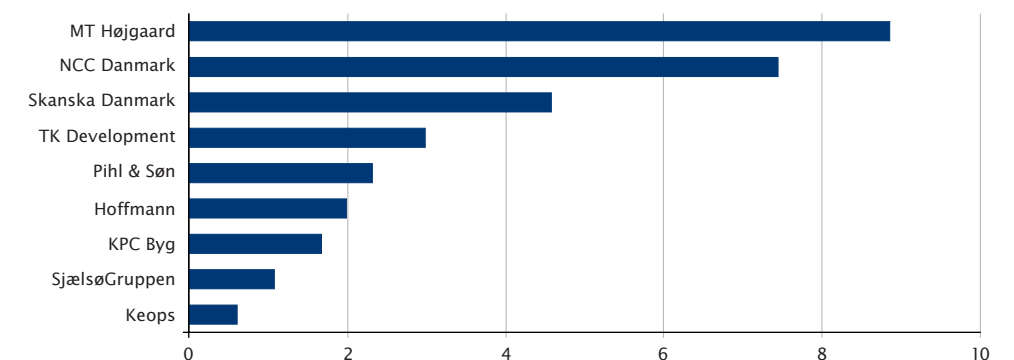
Foreign providers of financing play an important part in the Danish property finance market. German banks are especially active, with *Aareal Bank*, *LB Kiel*, *Rheinhyp* and *Württembergischer Hypothekenbank* all in the group of important foreign players. All provide financing for a wide range of properties, not only in the capital region but also nationwide.

Additionally, the most significant property leasing companies are *Nordania*, *Nordea Finans Danmark*, *Jyske Finans* and *FIH*, all of which are bank-owned.

Property holdings in DKK billion, institutions and property companies



Turnover, developers and construction companies (bn DKK)



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