

05

# AARHUS

PROPERTY MARKET REPORT 2005

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A light gray silhouette map of Denmark is shown in the background. A red circle with a central red dot is positioned over the city of Aarhus on the west coast of Jutland. The text 'AARHUS' is printed in bold black letters to the right of the map.

# AARHUS

PROPERTY MARKET  
REPORT 2005



*Peter Winther, Partner, Director*

*Carsten Gørtz Petersen, Director*

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, Aarhus and the rest of Denmark.

We constantly strive to expand and develop our highly specialised organisation of property professionals to enhance the quality of our services, always based on an in-depth understanding of the market, integrity and honesty.

Our professionals have backgrounds in real estate, including a membership of the *Royal Institution of Chartered Surveyors* (RICS), as well as in business and finance, and they hold advanced degrees in economy, finance and law.

### **Investment sales and acquisitions**

- Office and mixed-use properties
- Retail/Shopping centres
- Industrial/Distribution
- Residential complexes
- Hotels
- Land and development projects
- Property portfolios and companies

Sadolin & Albæk is a market leader in mediating the purchase and sale of major commercial and investment properties. Our in-depth market expertise and close relations with virtually every important decision-maker in the commercial property community give us a significant competitive edge in mediating even the largest property or portfolio investment deals as well as in managing sales and acquisition processes in the best interest of our clients.



*Kurt Albæk, Senior Partner, CEO*

*Thomas Køhl Christensen*

#### **Investment and financial consulting**

Portfolio analysis and strategy  
Diversification strategy, including risk and return analysis  
Asset management  
Property fund set-up  
Property asset-backed securities

In response to the increased focus on enhancing investment property portfolio returns and the increased complexity of the marketplace, 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, i.e. 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 just space – they want flexible, efficient and cost-effective premises that meet 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.



*Jeanette Rosenberg*

*Andreas Albæk*

*Morten Schultz*

#### **Corporate Real Estate Services (CRES)**

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

Efficient space utilisation and property exposure management are becoming increasingly important for major property users. We offer advisory services concerning cost-efficient use of space, and advanced financial techniques to reduce corporate property costs and exposure, including operational or financial sale and leasebacks and synthetic leases with attractive purchase options.

#### **Valuations**

We value more than DKK 22bn (EUR 3bn) worth of commercial property each year, serving an extensive client base of domestic and international institutions and private investors, owner-occupiers, government and municipal bodies as well as major international banks and property-financing companies.

#### **Development consulting**

- Development and redevelopment strategies
- Feasibility studies

We are not developers, architects or building engineers. But we take a proactive approach to property 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 tomorrow.

#### **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.



*Jan Kristensen, Partner*



*Asger Kurth*



*Peter Frische, Partner*

*Andreas Grønbaek*

The members of 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.

#### **Nordic property services**

NewSec AB, Sweden and Finland

DnB NOR Næringsmegling AS, Norway

We have expert knowledge of our home market. In acknowledgement, however, of the regionalisation process currently taking place in the Nordic countries, we have established a unique partnership with leading commercial real estate service providers in Sweden, Norway and 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 NOR Næringsmegling AS, a subsidiary of the largest commercial bank in Norway, is a dominant property consultant in both Oslo and Bergen.

#### **Worldwide property services**

##### **ONCOR International**

For almost 20 years, Sadolin & Albæk has been a member of ONCOR International, a major global organisation of professional commercial real estate 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.

Through ONCOR International, we have business associates in more than 200 markets throughout the United States, Canada, Europe, Asia, South Africa, and Latin America.

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*For a comprehensive listing of key contacts as regards specific services we invite you to visit our website [www.sadolin-albaek.dk](http://www.sadolin-albaek.dk)*



Aarhus

Vejle  
Fredericia  
Kolding

Copenhagen  
Malmoe



## MARKET INTRODUCTION

- *The Aarhus region is Denmark's second largest region, and counts a population of about 660,000*
- *An abundance of educational institutions supply Aarhus with a well-educated workforce*
- *Aarhus has a modern business sector housing specialised clusters within the IT as well as the biotech, medtech and media industries*
- *Aarhus enjoys a highly developed infrastructure and Denmark's largest container port*

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The population of Aarhus is approximately 295,000, which makes it the second largest city in Denmark. Counting the immediate suburbs and surrounding municipalities the population of the region today reaches some 660,000.

Today the workforce stands at 340,000 in the Aarhus region. Increasingly, the workforce is employed in the private service sector. Service jobs have more than replaced lost jobs in traditional industry. The workforce is expected to rise over the next decade, accommodating future growth in the private business sector.

Educational facilities are densely located in Aarhus. The University of Aarhus, the Aarhus School of Business and the Danish School of Journalism are but a few of the institutions located in the city. The educational institutions have been flexible in supplying graduates equipped for strengthening the private business sector in the region. About one third of the workforce has completed medium or long-term degree programmes.

The business sector in Aarhus is characterised by a number of highly specialised clusters. Clusters include the IT, biotech, medtech and media industries. In recent years, there have been considerable investments in construction works aimed at establishing an accommodating infrastructure and creative physical environments for these key industries.

The old city centre in Aarhus abounds with thriving high street shops with international as well as local high-quality products on display. Boasting more than 400 specialty shops, the city centre has developed an increasingly metropolitan air with the addition of shopping centre *Bruun's Galleri* featuring 30,000 sqm of retail space in the southern part of the high street area. In general, the retail trade in Aarhus has experienced an expansion period, and the sector carries a solid part of the new job gains over the past decade. As a result, more than 50,000 people are employed in the retail sector today. Turnover in the sector exceeds DKK 13.5bn (EUR 1.8bn).

Aarhus has an infrastructure that favours the business sector in general. Motorway E45 that connects Denmark with the rest of Europe is located west of the city, and the port of Aarhus is an international distribution and transportation hub. The flow of commerce going through the port benefits local as well as regional logistics, servicing connecting cross-country road haulage. Also, the port of Aarhus employs some 4,000 regional residents, hereby boosting the local labour market. Five arterial roads and two ring roads accommodate the labour force commuting between housing areas outside the city centre and business locations in the city.

## OVERVIEW INVESTMENT OCCUPATIONAL

## REGIONAL OVERVIEW

### OVERVIEW INVESTMENT OCCUPATIONAL

- *Employment figures in Aarhus expected to rise as new jobs are being created in the private service sector*
- *Fall in Aarhus unemployment rate in 2005*
- *Aarhus households have larger than average incomes and the real disposable income per capita is increasing relative to the national average*

#### Population

The population of Aarhus is expected to rise by 6.1% over the next decade, boosting the potential workforce by about 10,000 residents. The population of the Aarhus region as a whole is expected to increase by 4.2% over the next decade. Another 10,000 or so residents will thus become eligible for the workforce. The projected population increase over the next 10 years is higher than it is for any other region in Denmark.

#### Labour market

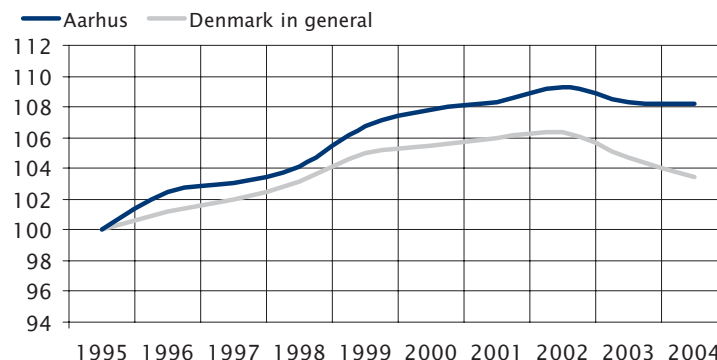
Aarhus is one of the premier job-creating regions in Denmark, pacing ahead of the national average. Since 1990, 20,000 new jobs have spun off the original base. Industrial jobs have been disappearing, whereas jobs have been created within the private service sector and the local retail trade. The creation of further new jobs within the private service sector is forecast.

The region has like the rest of Denmark been affected by the economic downturn, which in 2001 ended almost a decade of unprecedented growth in the world economy. Nevertheless, the downturn in the Danish economy has been short lived, and most indicators show that Aarhus similar to the rest of Denmark has seen an economic upturn since the fourth quarter of 2003. Employment levels, however, have been slow to adjust. Aarhus experienced a net employment loss in 2002 to 2004, but the region did not suffer as hard a blow as did Denmark in general. Consequently, employment levels in Aarhus were left relatively unscathed by the recession. Most forecasts see employment numbers up in 2005 and 2006.

#### Unemployment

Hosting a great number of educational facilities, Aarhus owes its higher than average unemployment rate to structural factors such as a higher unemployment rate among university graduates. The business sector benefits from the abundance of graduates, and measures are undertaken to ensure a swift and smooth transition between education and the business community. Among others, facilities co-housing university departments and developing businesses are being built in the northern part of Aarhus. By mid-2005, unemployment in Aarhus has fallen 100 bp to a level around 6%.

Employment (index 100 = 1995)



Source: Statistics Denmark

**Personal income**

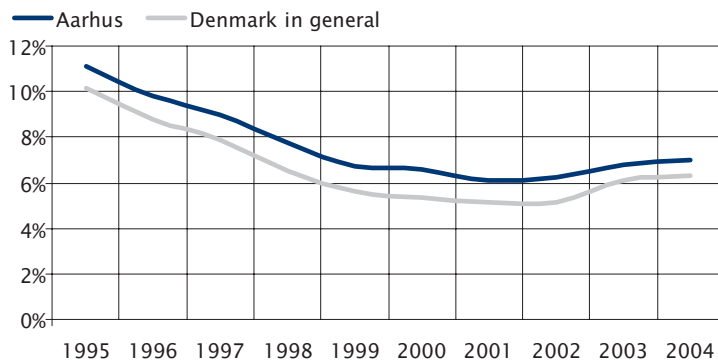
The income level in Aarhus slightly exceeds the general level outside the Greater Copenhagen area. This reflects a strong business culture and high level of activity, but also the fact that the Aarhus region enjoys a large catchment area of 660,000 residents with strong purchasing power, something that serves to benefit retail sales in Aarhus.

In recent years, the income level has outperformed the Danish average, excluding Greater Copenhagen. In the period from 2002 to 2003, the per capita personal income grew by 2.9% in the Aarhus region and by 2.4% in Denmark in general, again exclud-

ing Greater Copenhagen. The projected population growth mixed with high per capita personal income growth serve to equip Aarhus with the potential to remain an economic growth centre over the next decade.

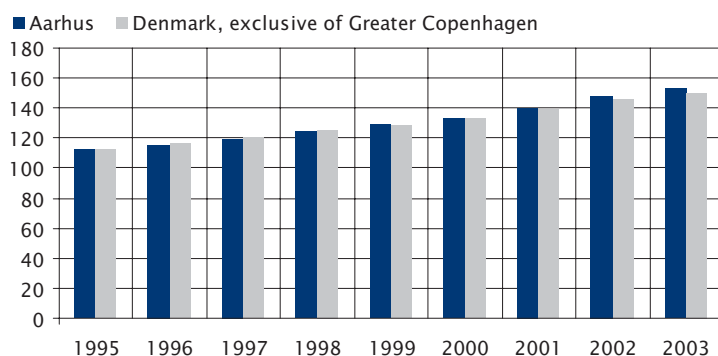
The positive outlook is also reflected in wages and salaries. In the period from 2000 to 2003, wages and salaries in the Aarhus region increased by 10%, whereas the national average increase was just over 8%, owing also to the fact that the Aarhus workforce includes an increasing number of highly educated people.

**Unemployment**



Source: Statistics Denmark

**Personal income (index 100 = 1995)**



Source: Statistics Denmark



## TRENDS IN THE AARHUS PROPERTY MARKET

- New commercial construction averaged 100,000 sqm p.a. over the past decade
- Heavy industry facilities being replaced by office, retail and logistics facilities
- Stagnating prime rents and a fall in net initial yields on office property have given investors solid returns on property investments

Most commercial construction activity has taken place outside the inner ring road, whereas activity inside the inner ring road has been predominantly focused on redevelopment schemes due to the limited space. Along the motorway, new construction is mainly targeting logistics companies.

Over the past decade, the number of buildings averaging 5,000+ sqm has swelled by 60%, whereas the number of smaller buildings has been constant. Part of the reason

for the growing number of large buildings is the advance of logistics in the locations along the motorway system.

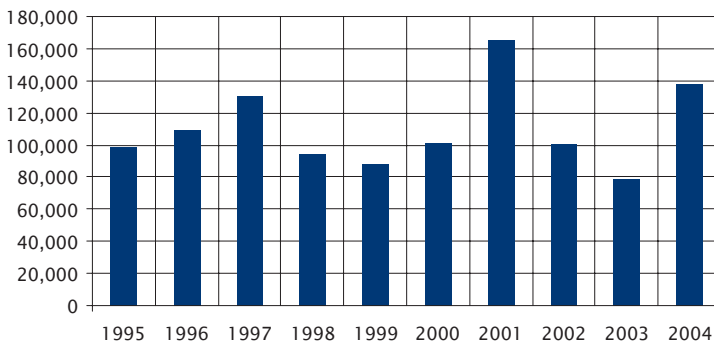
Since the mid-1990s, annual new construction had averaged around 100,000 sqm of space. In 2004, however, new construction surged to almost 140,000 sqm, testifying a healthy construction market in Aarhus.

Prime office rents in the Aarhus market have been influenced by developments in peripheral areas. The supply of office space has increased in step with new completions, and substantial demand has shifted towards these developing areas. As a result, prime office rents have levelled out.

Prime office yields have been affected by economic trends in general and have in fact dropped sharply since 2003.

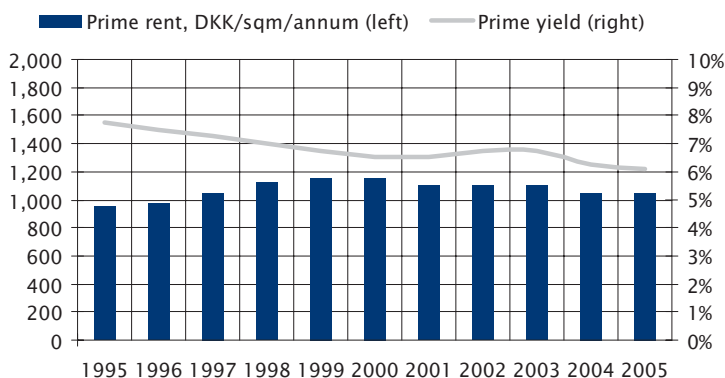
**OVERVIEW**  
**INVESTMENT**  
**OCCUPATIONAL**

Annual new construction (sqm of commercial space), Aarhus



Source: Statistics Denmark

Prime office rents and yields, Aarhus



Source: Sadolin & Albæk

Market expectations 2006, rents ↗  
 Market expectations 2006, yields →



# PRICE INDEX FOR THE AARHUS PROPERTY INVESTMENT MARKET

- Strong investment activity backed by favourable economic trends
- Returns on commercial property outperforming stocks and bonds
- Low yields on alternative investments make commercial property attractive

The transaction volume recorded in the Aarhus property investment market has been fluctuating significantly over the past decade. Despite fluctuations an upward trend in transaction volumes is traceable over the past decade, when transaction volumes have averaged DKK 1.8-2.7bn (EUR 241-362m) p.a. Today's transaction volumes per unit are double of what they were a decade ago owing largely to commercial property value increments.

In 2004, commercial property in Aarhus yielded a total return of 11%. The return reflects an increase of some 5.5% in commercial property prices and an income return of some 5.5%.

Over the past five years, total return has averaged about 10%. Capital growth has fluctuated somewhat, but remained positive over the period. Having taken a dip and thereby bringing total return down to just above the 6% mark in 2003, capital growth bounced back in 2004, bringing total return to a level of around 10%.

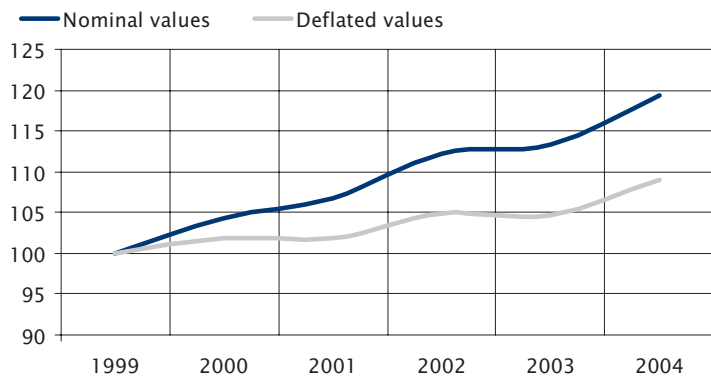
In late 2004 and the first half of 2005, investors have lowered their yield requirements, thus boosting prices additionally.

Income return has been steadily decreasing over the past years. This trend is the effect of stagnating rents and soaring prices. Demand has been driven by favourable economic conditions. Low interest rates in tandem with high private and pension savings have made financial markets liquid, and institutional investors generally have long-term placement requirements.

Over the past five years, total return on commercial property in Aarhus has outperformed stocks and long-term bonds. This trend is to some extent a result of the stock market setback starting in 2000. Since 1999, the yield spread has remained positive, making commercial property investments attractive relative to investments in fixed-income securities, such as long-term bonds.

OVERVIEW  
**INVESTMENT**  
 OCCUPATIONAL

Commercial property price index, Aarhus (index 100 = 1999)



Source: DEI/IPD

Total return, income return and capital growth (in %) for commercial property in Aarhus



Source: DEI/IPD

## THE OFFICE PROPERTY INVESTMENT MARKET

### OVERVIEW INVESTMENT OCCUPATIONAL

- Yield gap on office property narrowing between Aarhus and Copenhagen
- Decline in yields on office property in the city centre of Aarhus

In general, yields in the Aarhus office property investment market have decreased significantly over the past 12 months, narrowing and almost eliminating the spread to yields on comparable investment property in Copenhagen.

In central Aarhus, yields on prime office property have been pushed down by a limited supply of centrally located investment opportunities and continuously strong demand, especially from private investors.

Typically offering less flexibility in terms of space and up-to-date office facilities such as

IT infrastructure, climate conditioning, parking facilities, etc., secondary office property is more vacancy prone relative to prime office property. Vacancy risk in the secondary office property investment market has been overshadowed by the strong employment outlook and the short supply of prime investment opportunities. In step with the growing attention on secondary offices, yields are edging down in this segment. This trend is expected to gain momentum in the immediate future. Meanwhile, vacancy rates in Aarhus have been decreasing since late 2004, although vacancy in large office units remains a problem in parts of central Aarhus.

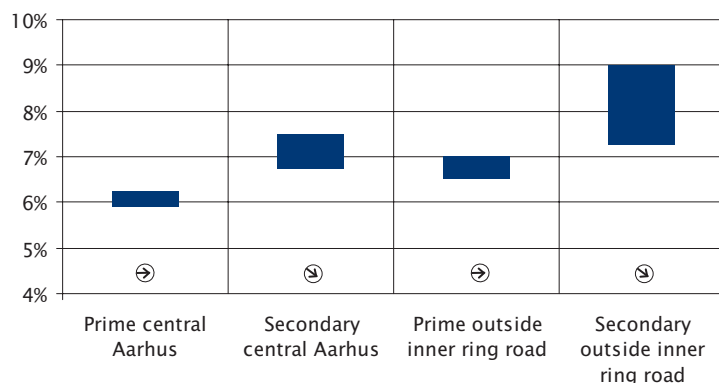
The office occupational market outside the inner ring road accommodates companies with mainly built-to-suit large-scale and flexible space requirements. In this respect, the market outside the inner ring road has traced a positive trend with falling net initial yields, but it has not been able to fully match the decline in yields in central Aarhus.

The yield spread widened in the period from 2001 to 2003, making leveraged property investments attractive. This trend reversed in 2004-2005, bringing the yield spread under pressure from the fast dropping net initial yields on prime Aarhus office space.

Recent transactions include:

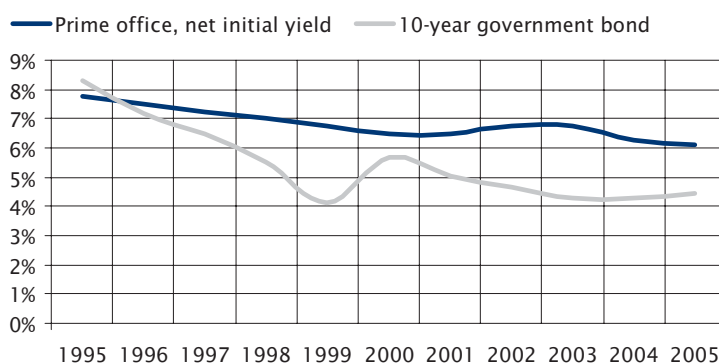
- Institutional investor *ATP* acquired a 5,300 sqm mixed-use retail and office property at Værkmestergade in central Aarhus at a price of DKK 72.8m (EUR 9.8m).
- Property company *Ejendomsselskabet Casa A/S* acquired a 2,500 sqm office building at Østergade in central Aarhus at a price of DKK 60m (EUR 8m).
- *ArkitektGruppen A/S* acquired a 3,300 sqm office building at Daubjergvej in the area around the inner ring road at a price of DKK 46m (EUR 6.2m).
- A private investor acquired a 4,100 sqm mixed-use building at Jægergårdsgade in central Aarhus at a price of DKK 70m (EUR 9.4m).

Office net initial yield, Aarhus



Source: Sadolin & Albæk

Yield spread, Aarhus



Sources: Sadolin & Albæk, Danmarks Nationalbank and projections by Danske Bank

# THE RETAIL PROPERTY INVESTMENT MARKET

- Change in high street shopping patterns has upgraded existing retail areas
- New construction and investor focus concentrated on retail warehouse and shopping centre segments

The shopping centre of *Bruun's Galleri* has attracted many shoppers to the southern end of the high street area. The northern end around *Aarhus Cathedral* and the so-called *Latin Quarter* remains a busy shopping area. For investors, the somewhat unsettled future shopping patterns mean that local knowledge of the city centre is key to making safe investment decisions.

In the high street area, only few properties come to market. Hence, secondary property increasingly whets investors' appetites. Yields are coming down as investors are attracted by net initial yields that outperform yields on Copenhagen high street property investments. The Aarhus retail property investment market is also dominated by private investors, mostly in the form of tax-driven limited partnerships, in Danish abbreviated K/S.

Vacancy rates in Aarhus retail property have levelled out to around 2%. Vacancy in the city centre is low, whereas some vacancy exists in retail areas along the arterial roads.

Retail warehouses attract considerable attention from private investors because the project size is ideal for the K/S partnerships.

Net initial yields on newly completed premises largely hinge on long leases with large, well-known anchor tenants. Net initial yields have fallen over the past 12 months.

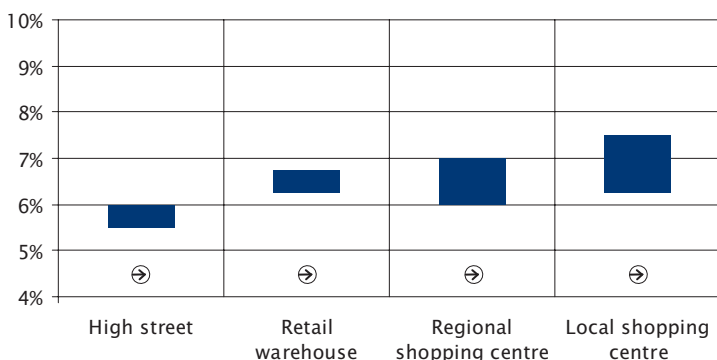
Yields on local shopping centres have fallen relatively more than the yields on regional shopping centres. Development continues to be considerable in the local shopping centre segment, which generally holds a strong position in the retail market.

Recent transactions include:

- Private investors acquired an 8,500 sqm retail warehouse in Skejby at a price of DKK 115m (EUR 15.4m).
- Property company *Ejendomsselskabet Casa A/S* acquired a 2,100 sqm mixed-use retail and office property at Søndergade, the main shopping street in central Aarhus, at DKK 80m (EUR 10.7m).
- Private investors acquired a 610 sqm retail property at Klosterport in central Aarhus at a price of DKK 15.5m (EUR 2.1m).
- Private investors acquired a 1,800 sqm retail warehouse at Øllegårdsvej in Viby at a price of DKK 17.8m (EUR 2.4m).

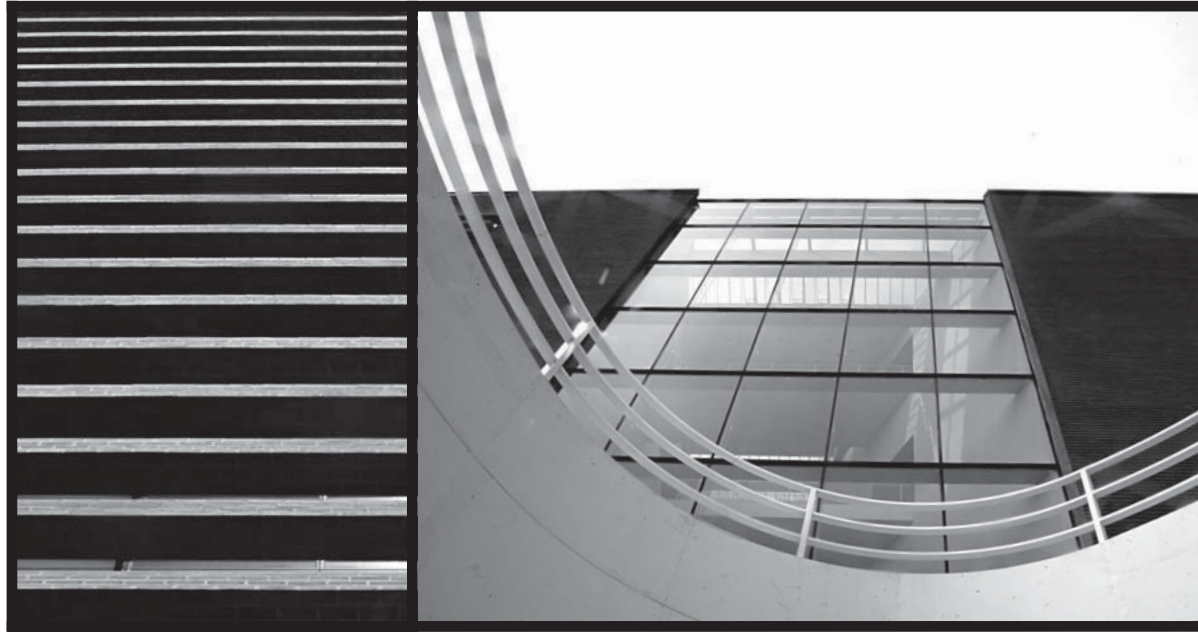
OVERVIEW  
**INVESTMENT**  
 OCCUPATIONAL

Retail net initial yield, Aarhus



Source: Sadolin & Albæk

Note: Net initial yields for regional shopping centres are for Funen and Jutland



## THE INDUSTRIAL PROPERTY INVESTMENT MARKET

- Demand for minor multi-let properties
- Vacancy risk in old traditional industrial areas
- Some investment activity in areas to the north and west of the outer ring road

The Aarhus industrial property investment market offers high yields, which combined with cheap financing provide investors with positive cash flow opportunities. The opportunities, however, come at some risk as vacancy rates vary considerably according to property types and industries. Vacancy rates have generally come down in recent years, reducing the overall letting risk.

The term of the lease remains the key factor in the industrial property investment market. Properties with long-term tenants generally trade at relatively lower yields. As redevelopment is costly, many owner-occupiers choose to relocate if resizing is needed.

Minor industrial properties multi-let to local workshops within the manual industries are in demand. These types of businesses, which primarily service the local area, are abundant in Aarhus. In response, several investors have adopted investment strategies exploiting the high property yields in this segment. Investors meet the increased letting risk on the short leases by letting to multiple small tenants.

Large industrial units are associated with higher risk as they are often single-purpose built and may suffer from prolonged vacancy. A combination of a short lease and a large single-purpose built industrial unit carries significant letting risk and hence generates much higher yields.

Investment potential is focused around new industrial areas to the north-west and north of Aarhus. The property stock in these locations is of a more recent date and features the flexibility required to reduce vacancy risk. Logistics companies requiring proximity to the motorway system dominate these locations.

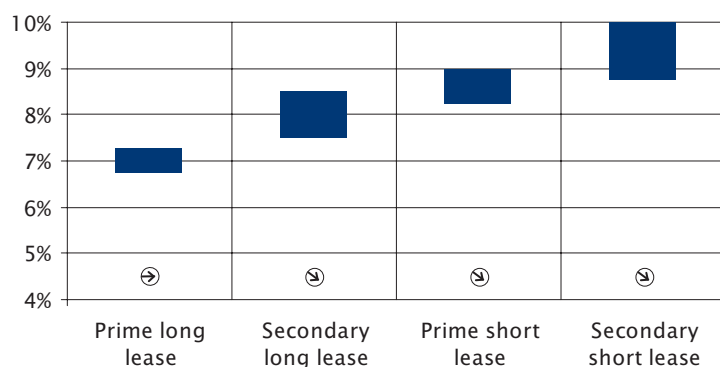
Depending on the lease term, short or long, net initial yields have developed somewhat differently: investment property with long leases in prime locations has experienced the largest drop in net initial yields.

Recent transactions include:

- *Dansk Investering Erhverv A/S* acquired a 2,600 sqm warehouse at Sindalsvej in Risskov at a price of DKK 13.9m (EUR 1.9m).
- *Petunia A/S* acquired a 1,300 sqm industrial property at Skejby Nordlandsvej in Skejby at a price of DKK 17m (EUR 2.3m).

OVERVIEW  
INVESTMENT  
OCCUPATIONAL

Industrial net initial yield, Aarhus



Source: Sadolin & Albæk

# THE OFFICE OCCUPATIONAL MARKET

**OVERVIEW**  
**INVESTMENT**  
**OCCUPATIONAL**

- Moderate new construction activity in areas outside the inner and outer ring roads
- Development potential along the outer ring road to the north of Aarhus and in the harbour area

As the largest city in Denmark next to Copenhagen, Aarhus attracts a great number of regional and head offices. These require modern and spacious facilities, which can be found outside the city centre. Offices in the city centre are generally older, smaller and let out to the service trades and private service companies with limited space requirements.

To some extent, vacancy in the central Aarhus office market is brought about by a relocation trend, because companies tend to move to areas outside the inner ring road, which have an ample supply of premises and where the motorway system provides easy access to highly skilled manpower. This trend leaves some older buildings vacant. In early 2005, office vacancy rates discontinued their previously upward trend and returned to a level of around 6%. The positive business cycle has improved economic conditions and companies are more inclined to hire new labour. Unemployment is already down, and an increase in employment figures is projected for 2005 and into 2006.

Rent levels on pre-let built-to-suit office space generally exceed prime rents by at least 10%. Development costs on new construction exceed market rents. Consequently, developers only engage in schemes pre-let on long leases. Building on spec is virtually non-existent in the Aarhus office market.

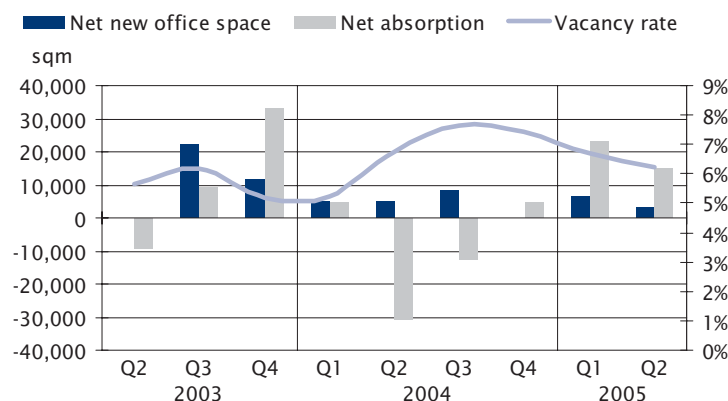
In the second quarter of 2005, office space in Aarhus extended to about 2.3 million sqm, and is found in the sub-areas listed below.

### (1) Central Aarhus

Office space in central Aarhus is located in the high street area and in the surrounding web of small streets. Occupiers are predominantly operating within the professions and service trades. This office property segment suffers from some vacancy. Large-space occupiers count financial institutions such as banks and mortgage banks. Historically, the Aarhus city centre has housed several headquarters, but today only very few remain.

In turn the harbour area, which is located right next to the city centre, is expected to become a growth area. In the southern part of the inner harbour, public monies have been channelled into a redevelopment/development project in the old industrial buildings that used to house *Midtkraft*. The facilities, dubbed *Filmby Aarhus*, are let by multiple local film production companies.

Net new office space, net absorption and vacancy rate, Aarhus



Source: Oline-Lokalebørs Statistics

On 1 July 2005, *Aarhus Stiftstidende*, a local daily newspaper, moved into newly completed lease facilities in the square of *Banegaardspladsen* in central Aarhus. The DKK 70m (EUR 9.4m) project was undertaken by a local investor, and besides Aarhus Stiftstidende, *Sydbank* moved into offices at ground floor level.

### (2) Inner ring road

In the western part of the inner ring road, *Frichsparken*, off *Søren Frichs Vej*, and the surrounding area host a great number of small office units. *Frichsparken* is a redevelopment of the *Frichs* estate, a former locomotive factory. Today, the 40,000 sqm site lies as an attractive estate accommodating the service trades along with minor units for the manufacturing and manual industry.

Along the northern part of the inner ring road in *Katrinebjerg*, developing IT companies are located in close proximity to the *University of Aarhus*. The area is still undergoing development, as *NCC* is building *Forskerparken*, a 10,000 sqm research facility. *Forskerparken* comprises a number of office units and will be multi-let to tenants within the IT industry and to the university. Projections have *Forskerparken* ready for use by early 2006. In close proximity to *Katrinebjerg*, *Nobelparken*, built in 2003 by *NCC*, comprises a small handful of spacious office facilities, totalling 55,000 sqm of space.

### (3) Outer ring road

Quite a few regional and head offices have been placed at the intersection of the outer ring road and the arterial roads. At *Silkeborgvej* towards *Brabrand*, many companies have chosen to locate over the past years. In contrast to the development clusters at the inner ring road, new construction projects at the outer ring road are scattered along the entire western stretch. Office buildings in this segment are relatively large, mostly housing regional or head office users.

### (4) Viby/Holme

Large corporate headquarters or large regional offices dominate the market for office space in *Viby/Holme*. A variety of sectors and service industries have chosen to locate in *Viby*, and new developments are still ongoing even though the surrounding housing areas limit large-scale expansion.

Off *Skanderborgvej*, domestic developer *A. Enggård A/S* is building an administration building for the local authorities, *Aarhus Kommune*. The project includes 13,500 sqm office space and will be ready for occupancy by the autumn 2005.

### (5) Skejby

Today, the areas around *Skejby* benefit from the largest new development potential. Demand for office space is strong in *Skejby*. The area has a high rate of new construction, and office vacancy is generally transitional and due to existing companies relocating to new facilities. In recent years the area around the arterial road of *Randersvej* and *Olof Palmes Alle* has been attracting a great number of companies from developing industries, such as the biotech and IT sectors. Also *Skejby* is located close to the motorway system, which secures easy access for the labour force employed in *Skejby*.

In *Skejby* at *Randersvej*, *KPC* is building a new regional office for *Kinnarps*. Completion is planned for the autumn of 2005. Upon completion, the building will feature 1,300 sqm of office space and showrooms.

### (6) Grenåvej

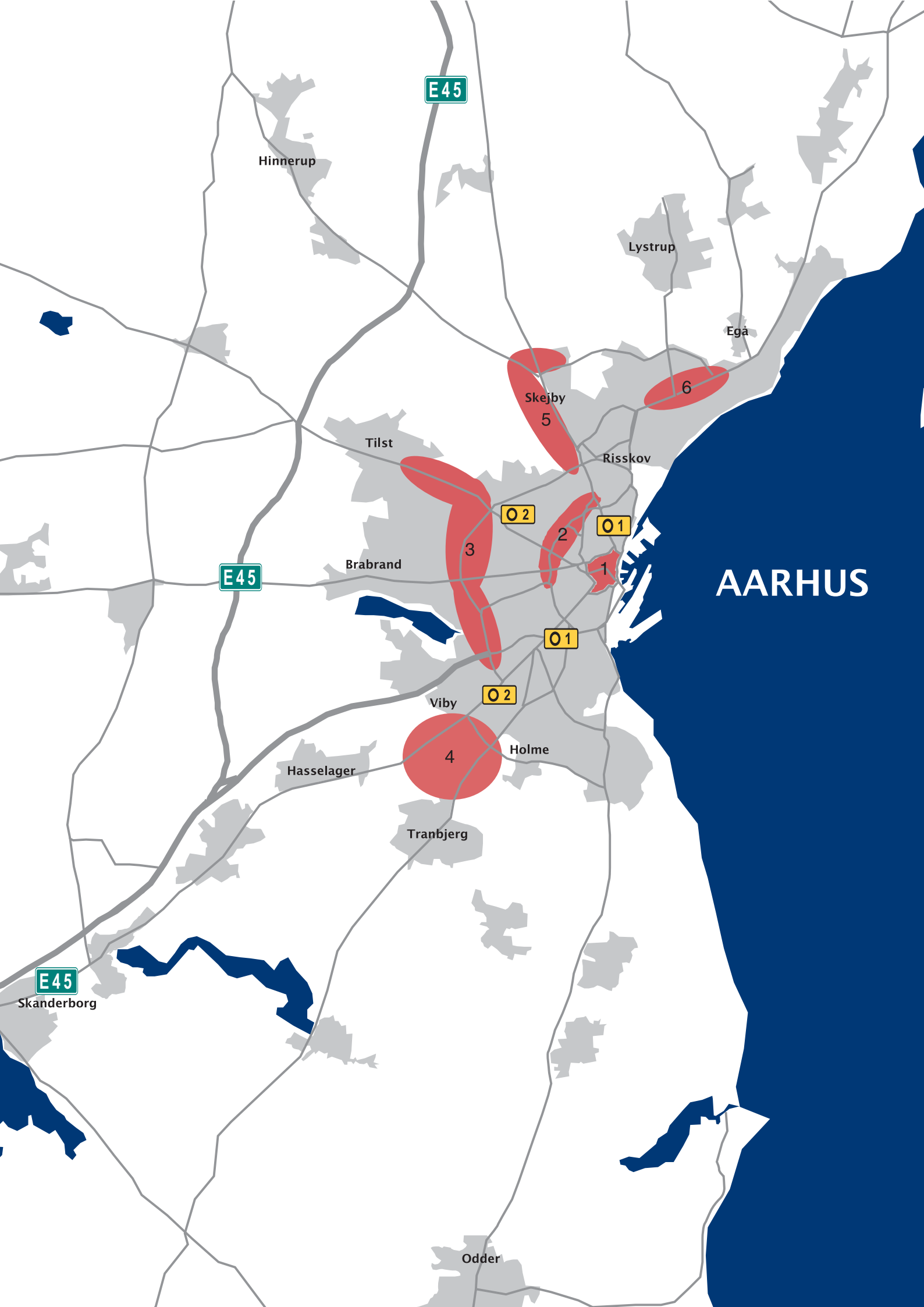
To the north-east, *Grenåvej* connects *Aarhus* with *Djursland*, cutting through the residential area of *Risskov*. However, *Grenåvej* is becoming a less important office location. The area is suffering from vacancy rates above average, and the office market in this area is seeing little redevelopment activity. Offices at and around *Grenåvej* are lacking in proper approach facilities.

Typical office rent levels, Aarhus

Prime rent levels	(DKK/sqm/annum)					Market expectations	
	2001	2002	2003	2004	2005	2006	
(Exclusive of operating costs)							
Central Aarhus and inner ring road							
(1) Central Aarhus	1,150	1,100	1,100	1,000	1,050	↻	
(2) Inner ring road	900	875	850	850	875	↻	
Approach roads and outer ring road							
(3) Outer ring road	850	800	800	800	800	↻	
(4) Viby/Holme	800	800	800	800	800	↻	
(5) Skejby	900	900	900	900	875	↻	
(6) Grenåvej	na	na	na	na	na		
Secondary rent levels	(DKK/sqm/annum)					Market expectations	
	2001	2002	2003	2004	2005	2006	
(Exclusive of operating costs)							
Central Aarhus and inner ring road							
(1) Central Aarhus	850	800	775	725	750	↻	
(2) Inner ring road	750	725	675	675	675	↻	
Approach roads and outer ring road							
(3) Outer ring road	675	675	650	650	650	↻	
(4) Viby/Holme	700	675	675	675	675	↻	
(5) Skejby	750	725	700	700	725	↻	
(6) Grenåvej	575	575	575	550	550	↻	

Source: Sadolin & Albæk

Note: Market rents on pre-let office space outside the outer ring road generally average a level which is at least 10% above prime rents in the area



# AARHUS

E45

Hinnerup

Lystrup

Ega

Skejby

6

5

Tilst

Risskov

O2

O1

E45

Brabrand

3

2

O1

O1

O2

Viby

4

Holme

Hasselager

Tranbjerg

E45

Skanderborg

Odder

## THE RETAIL OCCUPATIONAL MARKET

### OVERVIEW INVESTMENT OCCUPATIONAL

- *Combining bustling shops with leisure time pursuits, the historic city centre of Aarhus creates a metropolitan atmosphere*
- *Investments in developing shopping centres and department stores*

In Aarhus, the retail trade is mainly located in the city centre, but retail warehouses outside the ring roads are becoming increasingly popular. Also, shopping centres have a solid base in the Aarhus retail market.

Demand for retail space is among other factors influenced by the positive development in private consumption and employment. Improved personal incomes in the wake of tax cuts following the so-called 2004 'spring economic stimulus package' is helping to boost private consumption. Consequently, demand for retail space is sustained by fair private consumption and falling unemployment. Developments in local shopping centres and retail warehouses are spun off increased private consumption and the thriving labour market in Aarhus.

In the second quarter of 2005, retail space in Aarhus extended to about 1.4 million sqm, and is found in the sub-areas listed below.

#### (1) City centre

The retail scene in central Aarhus is undergoing a restructuring phase. With the addition of shopping centre *Bruun's Galleri* in the southern end, the shopping area has become significantly larger, spanning the area from the central station and northwards to the so-called Latin Quarter. The upgraded shopping area in Ryesgade has quite some development potential as footfall through the area has increased.

At Søndergade, the main shopping street in central Aarhus, the local department store of *Salling* is expanding by 8,000 sqm and renovating its façade to Søndergade.

In central Aarhus, infrastructural improvements are taking place e.g. along *Aarhus Å*, a small stream creating a perfect ambience for cafés, bars and restaurants to cater for shoppers in the area. The last phase of the project is scheduled for completion in late 2007, stretching the open part of the stream, which is currently submerged under *Åboulevarden*. Consequently, the area is expected to draw even larger numbers of shoppers to this part of the city centre.

Aarhus received a cultural lift in the spring of 2004. The new art museum and gallery, *ARoS*, was completed in the vicinity of the Aarhus Music Hall, Scandinavian Centre and City Hall. The facilities take up a gross area of 17,700 sqm.

In the square of *Telefontorvet*, in close proximity to the ongoing construction around Aarhus Å, *Essex Invest* and *KPC* are building a 9,200 sqm apartment complex, called *Essex Park*. The project stands on the former site of *Jysk Telefon* and is scheduled for completion in the autumn 2005. In addition to residential units, the complex will have three retail units at ground floor level, with ancillary storage and office space. The basement will accommodate a car park with 48 parking spaces.

#### (2) Shopping centres

Recently built, *Bruun's Galleri* is drawing shoppers to the southern end of the high street area from large parts of eastern and central Jutland. Turnover in 2003 amounted to DKK 200m (EUR 26.8m). The shopping centre of *City Vest*, located close to the motorway, is attracting an increasing number of customers from large parts of eastern Jutland. Turnover in 2003 amounted to DKK 482m (EUR 64.6m).

Development activity is most apparent in the northern part of Aarhus, where the shopping centre of *Storcenter Nord* is currently expanding by some 7,000 sqm, divided on 20

new shop units. The area in general is experiencing significant developments, and the expansion scheme should be viewed as an effort to accommodate this trend. In 2003, Storcenter Nord posted a turnover of DKK 650m (EUR 87.1m).

### (3) Retail warehouses

Virtually all the arterial approach roads leading into Aarhus have scattered retail developments. Whereas the importance of retailing at Grenåvej is declining due to e.g. the lack of approach facilities and retail magnets, the areas around *IKEA* at Randersvej and *Bilka* at Viborgvej are thriving. Retail warehouses locating in the area around Bilka are approaching a market threshold where insufficient demand will likely dampen turnover. If retail warehouses locate too far from the centre of the retail area, they will typically be unable to

attract the customers that are drawn to the large brands offered in the centre. The retail area of *Anelystparken*, close to Bilka, is still expanding to the southwest. Quite a few retailers have chosen this location, but some vacancy and additional development potential remains. Randersvej still has some retail development potential, but major expansive development has not yet materialised, because open space is not as readily available in this location. Nevertheless, the area is expected to experience future retail developments to the detriment of traditional industry.

In early July 2005, *Bauhaus* opened a drive-in DIY store in Viby close to *Skanderborgvej* in the southern part of Aarhus. The store is the largest of its kind in Jutland, taking up 11,000 sqm of space.

### Typical retail rent levels, Aarhus

(Exclusive of operating costs)						Market expectations
		2002	2003	2004	2005	2006
(1) Aarhus high street		1,900 - 3,800	1,800 - 3,700	1,700 - 3,700	1,800 - 3,800	↻
	(upper end)					
	Aarhus high street	1,500 - 2,300	1,400 - 2,200	1,300 - 2,100	1,400 - 2,200	↻
	(lower end)					
	Aarhus Latin Quarter	1,000 - 2,100	1,000 - 2,200	1,000 - 2,200	1,000 - 2,300	↻
(2) Regional shopping centres*	Anchor food	1,100 - 1,500	1,100 - 1,500	1,100 - 1,500	1,100 - 1,400	↻
	Anchor	1,000 - 1,700	1,000 - 1,700	1,000 - 1,700	1,000 - 1,700	↻
	-300 sqm	1,400 - 3,600	1,400 - 3,700	1,400 - 3,700	1,400 - 3,700	↻
	300+ sqm	1,100 - 2,300	1,100 - 2,400	1,100 - 2,400	1,100 - 2,400	↻
	Local shopping centres					
	Anchor food	800 - 1,400	800 - 1,400	800 - 1,400	800 - 1,300	↻
	-300 sqm	1,000 - 2,000	1,000 - 2,200	1,000 - 2,200	1,000 - 2,200	↻
	300+ sqm	850 - 1,250	800 - 1,250	800 - 1,250	800 - 1,300	↻
(3) Retail warehouses		900 - 1,150	850 - 1,100	850 - 1,100	850 - 1,150	↻

Source: Sadolin & Albæk

\* Rent levels for regional centres are for Funen and Jutland



## THE INDUSTRIAL OCCUPATIONAL MARKET

- *Logistics companies and light industry replacing heavy industry*
- *Industrial starts expected to pick up in northern Aarhus*

Light manufacturing and manual industry is replacing traditional heavy industry inside the inner ring road. Outside the outer ring road, however, it is replaced by logistics companies along the motorway. In the northern part of Aarhus, the motorway system is being expanded between *Søften* and *Skødstrup*.

In the second quarter of 2005, industrial space in Aarhus extended to about 10.4 million sqm and is found in the following sub-areas:

### (1) Harbour areas

The harbour is dominated by the Port of Aarhus and a host of related trading and logistics companies, etc. In total, more than 4,000 people are employed in traditional cargo handling. Long and short leases with port related businesses provide flexibility. The harbour area is still the most attractive industrial location in Aarhus. Infrastructural construction is scheduled to take place in the southern part of the harbour where a new tunnel under Marselis Boulevard will connect the harbour with the inner ring road.

### (2) Søren Frichs Vej

Along the inner ring road, light industry and service trades are replacing traditional heavy industry, which is retreating in general. On *Søren Frichs Vej* small manufacturing companies mix with the service trades on the former premises of *Frichs*. Other locations in the western part of *Søren Frichs Vej* still hold some development potential. Also the area between *Søren Frichs Vej* and *Silkeborgvej* houses workshops within the manual industry, enjoying a location in proximity to private customers.

### (3) Western corridor

The western corridor, spanning the area between *Silkeborgvej* and *Viborgvej* holds a

number of old industrial manufacturing companies. A large number of warehousing and logistics companies have been newcomers to the part of the western corridor that extends along the motorway towards *Randersvej* on account of its obvious logistical advantage.

In the relatively new business park of *Lisbjerg Erhvervspark* in the north-eastern part of the western corridor, *KPC* is building a new head office for *Bent Brandt A/S*, non-food suppliers to catering centres. The company will be relocating from a smaller property in *Egå* facing *Grenåvej* to the new 8,000 sqm head office in late 2005. With the opening of *Lisbjerg Erhvervspark* and the motorway extension between *Søften* and *Skødstrup*, the so-called western corridor may eventually merge with *Skejby/Risskov*, cf. (5) below.

### (4) Viby/Holme

To the south-west, on the far side of the outer ring road along *Skanderborgvej*, a few minor industrial areas are located. The industry here is of an older date and units are large. Towards the city centre, lighter manufacturing industry blends with offices and retail facilities. Some vacancy is recorded in industrial property in these areas. *Christian X's Vej* holds some logistics and warehouse companies, but also this traditionally strong industrial area is losing its importance. In the south-western part of *Skanderborgvej*, *Hasselager* houses some logistics companies, which enjoy motorway proximity.

### (5) Skejby/ Risskov

Industry in *Skejby* has transformed from heavy industry to lighter industry. At *Graham Bells Vej* manufacturing companies dominate, but mushrooming retail warehouses around *IKEA* are absorbing more and more space.

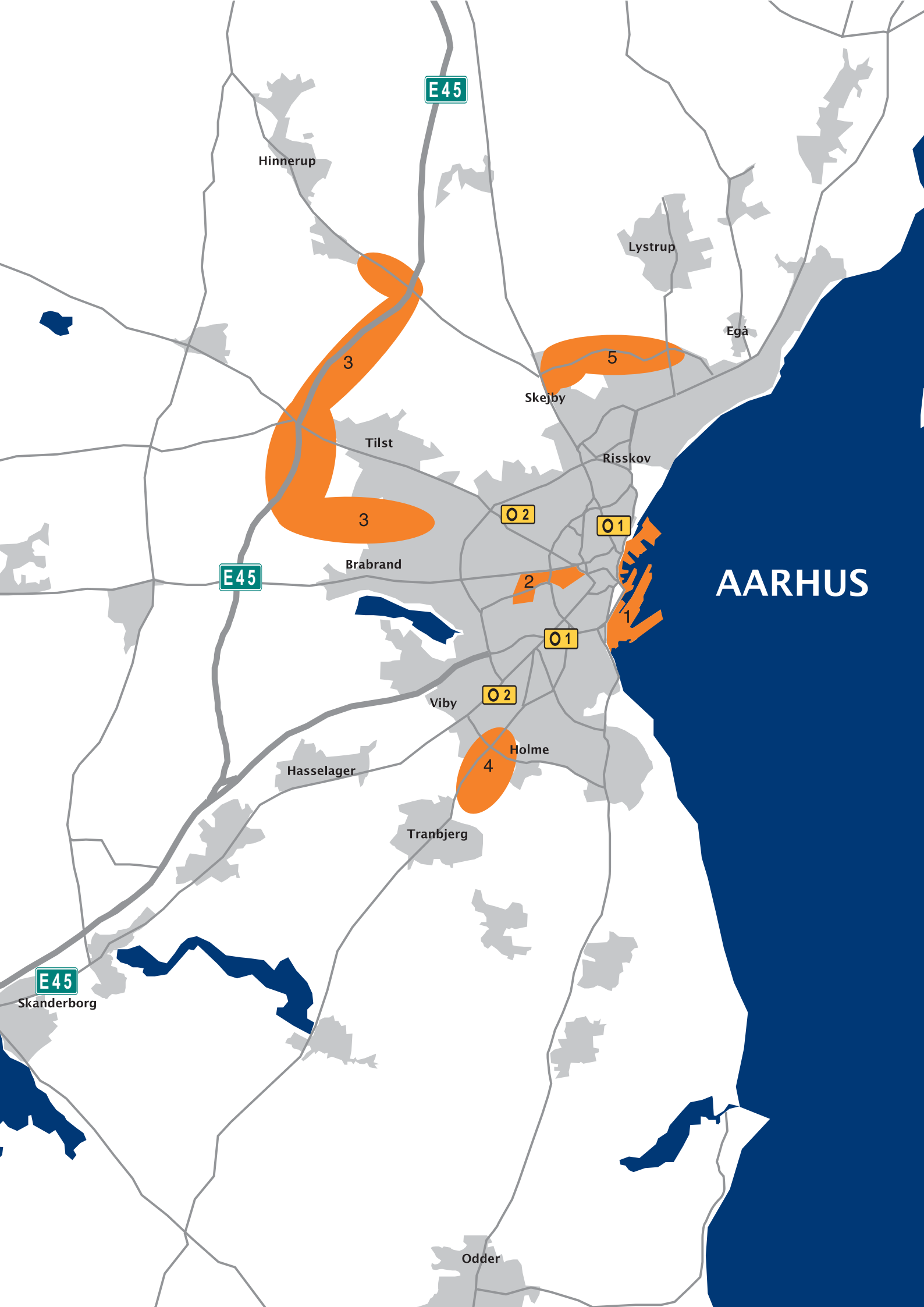
The industrial property stock in *Risskov* is a mixture of old and new, and the area is still seeing some new development.

OVERVIEW  
INVESTMENT  
OCCUPATIONAL

Typical industrial rent levels, Aarhus

Prime rent levels	(DKK/sqm/annum)					Market expectations	
	2001	2002	2003	2004	2005	2006	
(Exclusive of operating costs)							
Central Aarhus and inner ring road							
(1) Harbour areas	425	425	425	425	425	↔	
(2) Søren Frichs Vej	400	375	350	350	375	↔	
Approach roads and outer ring road							
(3) Western corridor	375	375	375	375	375	↔	
(4) Viby/Holme	375	350	350	350	350	↔	
(5) Skejby/Risskov	375	375	375	375	375	↔	
Secondary rent levels	(DKK/sqm/annum)					Market expectations	
	2001	2002	2003	2004	2005	2006	
(Exclusive of operating costs)							
Central Aarhus and inner ring road							
(1) Harbour areas	300	300	300	300	300	↔	
(2) Søren Frichs Vej	300	300	300	300	300	↔	
Approach roads and outer ring road							
(3) Western corridor	325	300	300	275	275	↔	
(4) Viby/Holme	230	275	250	250	250	↔	
(5) Skejby/Risskov	325	325	325	300	300	↔	

Source: Sadolin & Albæk



*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.*

*For occupiers, developers, investors, and financiers, commercial property activities often include substantial exposure to a complex and dynamic market. Decision-making on leasing, development and financing activity, acquisitions and disposals should always be based on detailed and updated knowledge and an understanding of the market.*

*Sadolin & Albæk is at your full disposal if you have any queries in regard to this market report or indeed any commercial property related issue.*

*Aarhus, August 2005*

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Page 26 Filmby Aarhus, harbour areas*

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