

THE COPENHAGEN RETAIL MARKET



NOVEMBER 2005

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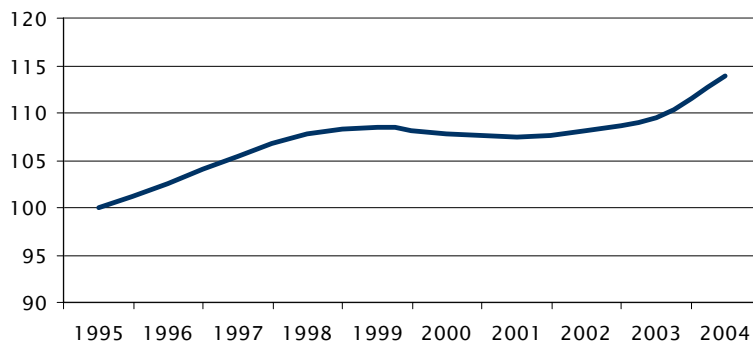
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1. The Copenhagen retail market

In general, the Danish private consumption has developed favourably during the last decade, showing an increase in consumer spending (in real terms) by almost 15% from 1995 to 2004.

In 2004 alone, consumer spending went up 3.4%. This surge was mainly boosted by the introduction of interest-only home mortgages, enabling private households to improve their liquidity. In addition, the Danish government's so-called tax stop was followed by real cuts in taxes and dues, which enhanced the purchasing power of private households and thus private consumption.

Private consumption (index 100=1995)



Source: Statistics Denmark

The increase in private consumption and consequently the increase in the retail sales have fuelled investment demand for retail units in Copenhagen. However, although demand from both Danish and international investors is substantial and prices on retail property are rising, a small number of shops even in the high street area sometimes become available, as present tenants are prepared to relocate. One would expect that this would put pressure on the top prime rents for Copenhagen high street retail property. However, the rent levels have remained stable in the last couple of years, and rents are forecast to remain at their present level or even rise in the lower end of the Copenhagen high street and in the Latin Quarter. This development is partly due to the Danish Commercial Tenancy Act, implemented on 1 April 2003, which opened up the possibility for landlords calling for rent increases to market level on leases let according to older tenancy agreements. Thus, the tenancy act has been a main driver of the considerable letting activity in Copenhagen; the tenants that were not prepared to accept rent increases have terminated their leases, which were subsequently re-let, typically to retail chains.

During the last couple of years, several major retail chains have relocated to larger shops and better locations that were traditionally dominated by local retailers. Typically, the more specialised local retailers favour the less expensive locations next to the high street. As far as existing high street property owners are concerned, this trend signals a positive development, as retail chains are able to pay higher rents than local retailers. On the other hand, landlords in areas next to the high street also stand to gain, as local retailers are able to pay higher rents than the typically more 'alternative' tenants formerly dominating the area. At the same time, the local retailers have helped upgrade the area surrounding the high streets of Copenhagen, making the overall retail market of central Copenhagen more attractive and versatile.

2. The retail property market

In total, the retail property market of Copenhagen counts some 4,200 shops. Among these there are approximately 1,600 convenience stores posting annual sales of approximately DKK 13bn (EUR 1.74bn) in total and taking up a gross floorage of some 313,000 sqm. Usually, trade in convenience goods takes place locally; however, all the regional shopping centres in Greater Copenhagen have discount stores which not only attract local customers, but regional consumers as well. All in all, the number of shops selling convenience goods in the Greater Copenhagen area has fallen by some 70% since the late 1960s.

The number of specialised stores, i.e. stores which typically sell clothing, furnishings, electronics and the like, is more or less the same as 30 years ago. Unlike before, these types of shops have to an increasing extent become concentrated in local and regional shopping centres or have chosen to locate themselves outside the city centre near other units of similar size, in so-called retail warehouse areas. There are 2,500 specialised stores with a gross floorage of approximately 640,000 sqm, posting annual sales in the order of DKK 14bn (EUR 1.88bn).

Finally, Greater Copenhagen has a vast number of shopping centres. As a matter of fact, 45% of the Danish shopping centres are located in the Copenhagen region and the number of inhabitants per centre is as low as 62,000. In comparison, the national average is 150,000 inhabitants per centre. In 2004, the revenue of the shopping centres in Greater Copenhagen totalled some DKK 25bn (EUR 3.35bn).

The retail property market in Greater Copenhagen can be specified further by dividing the market into a number of sub-categories. For typical retail rent levels, please see the table below.

Typical retail rent level, Greater Copenhagen (DKK/sqm/annum)

(Exclusive of operating costs)		2000	2001	2002	2003	2004	2005	Market expectations 2006
(1) Copenhagen "High Street" (upper end)	Area up to 100 sqm	12,000-17,000	12,000-18,000	12,000-19,000	12,000-19,000	12,000-19,000	12,000-19,000	↔
	Area 100-300 sqm	9,000-12,000	9,000-12,000	9,000-14,000	9,000-14,000	9,000-14,000	9,000-14,000	↔
	Area 300 sqm +	5,000-10,000	5,000-10,000	6,000-12,000	6,000-12,000	6,000-11,000	6,000-11,000	↔
Copenhagen "High Street" (lower end)	Area up to 100 sqm	6,500-9,000	6,500-9,000	6,500-9,000	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	4,000-8,000	4,000-8,000	4,000-8,000	↔
	Area 300 sqm +	3,500-5,500	3,500-5,500	3,500-5,500	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	1,200 - 3,300	1,400 - 3,800	1,400 - 3,800	↔
	Area 300 sqm +	900 - 1,650	1,000 - 1,750	1,200 - 1,800	1,200 - 1,800	1,200 - 2,500	1,200 - 2,500	↔
(3) Copenhagen other important shopping areas	Area up to 300 sqm	1,000 - 2,600	1,000 - 2,700	1,000 - 2,800	1,000 - 2,800	1,000 - 3,200	1,000 - 3,200	↔
	Area 300 sqm +	900 - 1,650	1,000 - 1,750	1,000 - 1,800	1,000 - 1,800	1,000 - 2,200	1,000 - 2,200	↔
(4) Provincial High Street	Area up to 100 sqm	1,800-3,000	1,800-3,500	1,800-3,600	1,800-3,400	1,800-3,400	1,800-3,400	↔
	Area 100-300 sqm	1,500-2,300	1,500-2,600	1,500-2,600	1,500-2,600	1,500-2,600	1,500-2,600	↔
	Area 300 sqm +	900-1,600	900-1,800	900-1,800	900-1,800	900-1,800	900-1,800	↔
(5) Regional shopping centres	Anchor food	1,200-1,500	1,200-1,600	1,200-1,600	1,200-1,600	1,100-1,400	1,100-1,400	↔
	Anchor non-food	1,300-2,000	1,400-2,200	1,400-2,200	1,400-2,200	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	2,000-7,500	2,000-7,500	2,000-7,500	↔
	Area 100-300 sqm	1,500-3,500	1,500-5,000	1,500-5,000	1,500-4,500	1,500-4,500	1,500-4,500	↔
	Area 300 sqm +	1,200-2,500	1,200-3,500	1,200-3,500	1,200-3,500	1,200-3,500	1,200-3,500	↔
(6) Local shopping centres	Anchor food	950-1,700	1,000-1,800	1,000-1,800	1,000-1,800	900-1,500	900-1,500	↔
	Area up to 100 sqm	1,300-2,000	1,300-2,200	1,300-2,500	1,300-2,500	1,300-2,500	1,300-2,500	↔
	Area 100-300 sqm	1,100-1,800	1,100-1,900	1,100-2,000	1,100-2,000	1,100-2,000	1,100-2,000	↔
	Area 300 sqm +	800-1,500	800-1,600	800-1,650	800-1,650	800-1,650	800-1,650	↔
(7) Retail warehouses	Area 300 sqm +	1,000-1,600	1,000-1,700	1,000-1,700	950-1,650	950-1,650	950-1,650	↔

Source: Sadolin & Albæk

2.1 The high street retail market in the Copenhagen city centre

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

This area accommodates both the department stores of *Magasin, Illum* and *Illum's Bolighus* 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, Mulberry, Versace, Donaldson, LaCoste, Escada, Chanel, Cerutti, Hugo Boss, Sand, Max Mara, Bang & Olufsen* and *Georg Jensen*.

Among international retailers on 'Strøget' and Købmagergade are *Hennes & Mauritz* with a three-storey megastore and two minor shops, *Zara* with a three-storey flagship store, *Diesel, Mango, Miss Sixty, Esprit* and *Benetton*. Furthermore, *Monsoon* has two shops, a major and a smaller unit. New international retailer is *Burberry*.

With a wide selection of prestigious articles and the many cultural events, entertainment facilities and other services offered, the Copenhagen city centre is a national and

to some extent also an international centre, which will continue to attract a large number of tourists. However, Copenhagen City also has a number of drawbacks in terms of relatively long walking distances and a lack of parking space.

2.2 Copenhagen Latin Quarter and Grønnegade area

The Latin Quarter and Grønnegade area encircles the Copenhagen high street area and is dominated by local independent retailers, which occupy some 80% of the shops in this area, as opposed to e.g. about 40% in the Copenhagen high street area.

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

Characteristically for the area, it accommodates a large number of the more exciting cafés and restaurants. In general, restaurants and amusement areas are located at either end of 'Strøget', viz. in the City Hall/Central Station area and in Nyhavn.

2.3 Other important shopping areas in Copenhagen

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

Frederiksberg differs from the other areas in the way 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 is home to one of the most important local shopping centres, *Frederiksberg Centret*, comprising approximately 18,000 sqm of retail space. Total sales in 2004 are estimated at DKK 937m (EUR 126m), resulting in a revenue of DKK 51,500 (EUR 6,900) per sqm rented retail area.

Shopping centres, which also deserve mention, are *Amager Centret* at Amagerbro, comprising approximately 16,000 sqm of retail space, and *Nørrebro Bycenter* at Nørrebro comprising approximately 10,000 sqm. Both are typical local shopping centres, and especially *Amager Centret* has been in operation for quite a number of years.



2.4 The provincial high street retail markets

Typical local high street retail areas are found in the town centres of *Elsinore*, *Hillerød*, *Køge* and *Roskilde*. They are all easily accessible through motorways and main roads.

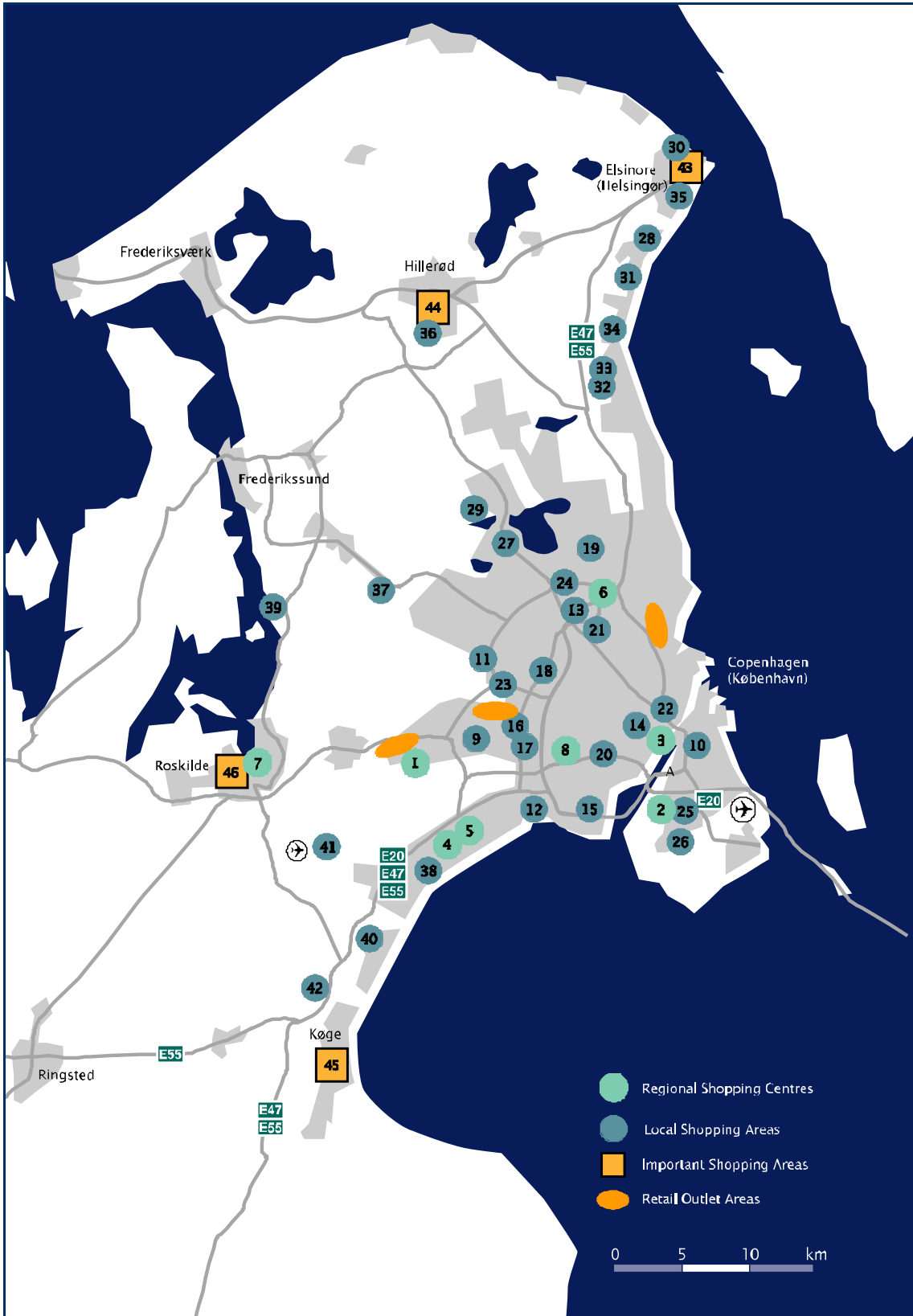
Elsinore is with its location in north-eastern Zealand close to the coast of Sweden and *Helsingborg*, which is only a 20-minute boat trip away. The two cities are closely connected, and they form a strong northern border in the *Øresund Region*. A great part of retail sales are accounted for by Swedish customers, and despite the opening of a fixed link between Sweden and *Ørestad* to the south of the region, no great fall is forecast in the long-term sales projections.

Hillerød, located in the central part of northern Zealand, has main retail districts concentrated along the pedestrian streets in the city centre. In addition, the shopping centre of *SlotsArkaderne*, owned by *Danica Ejendomme A/S* and managed by *Steen & Strøm Danmark A/S*, is located near the pedestrian area. More than 1,000 parking spaces are offered next to the shopping centre. In *Slotsarkaderne* alone, the gross floorage extends to 42,000 sqm, of which 18,000 sqm are let for retail purposes. Total sales in 2004 are estimated at DKK 694m (EUR 93m), which means that the revenue per sqm rented retail area was DKK 38,500 (EUR 5,159).

Roskilde is located approximately 35 kilometres west of Copenhagen. The city centre derives a majority of retail sales from people living in Roskilde and environs. Also, Roskilde attracts people living outside the area as well as tourists. The most prominent tourist attractions in Roskilde are the Royal Cathedral and The Viking Ship Museum, but Roskilde also offers a good deal of entertainment facilities and cultural events, e.g. the Roskilde Rock Festival. The city centre of Roskilde can be considered a regional centre for speciality goods. With *Ro's Torv* – a shopping centre built in 2003 and comprising a total gross floorage of approximately 28,500 sqm, including some 18,500 sqm sales areas – just 600 metres from the Roskilde high street area, the Roskilde city centre and *Ro's Torv* combined are expected to enhance the overall regional importance of Roskilde and to complement each other in meeting retail demand.

Køge is situated to the south of Copenhagen and Roskilde, and is mainly attracting customers from central Køge and its environs. Retail trade in Køge is concentrated in the two central streets in the city centre, which constitute a pedestrian area.

Besides the high street areas, a number of attractive regional and local shopping centres are located in the Greater Copenhagen area. The map below shows the location of these shopping centres.



Note: For a complete list of the retail places showed on the map, please see page 13.

2.5 The regional shopping centres

The regional centres in Greater Copenhagen consist of the relatively newly opened *Field's* in Ørestad, *Fisketorvet* close to the city centre, *Lyngby Storcenter* to the north, *Rødovre Centrum*, *Ro's Torv* and *City 2* to the west, as well as *Hundige Storcenter* and *Ishøj Bycenter* to the south.

Regional centres are often located near a train station, yet they mainly appeal to customers arriving by car. The regional centres focus on trade through specialised shops to a larger degree than do the local centres, and they also offer a wider range of convenience goods. Furthermore, they often enjoy an array of restaurants and overall entertainment pursuits, and therefore often attract customers in groups - the most obvious example being families - who use the centres as the goal for a daytrip. Accordingly, these centres have a very large number of parking spaces.

The rented area of the regional shopping centres in Greater Copenhagen ranges between approximately 20,000 sqm and 70,000 sqm. The average rented area is around 40,000 sqm and sales per sqm average approximately DKK 33,000 (EUR 4,422).

The *Fisketorvet* shopping centre opened in October 2000 on a waterfront site just south of the Copenhagen city centre. Rodamco manages the 52,000 sqm centre of which lettable areas extend to almost 40,000 sqm. Among the anchor tenants are *CinemaxX*, *Hennes & Mauritz*, *Stadium*, *Føtex* and *Electric City*.

The major shopping centre of *Field's* opened in the spring 2004 in Ørestad between the Copenhagen city centre and Copenhagen Airport with immediate access to the motorway network and with train and metro stations located nearby. Featuring a gross floorage of 115.000 sqm, including some 70,000 sqm of lettable areas, *Field's* is the largest shopping centre ever built in Denmark. It was developed by a consortium of domestic player *TK Development* and Norwegian company *Steen & Strøm*. The centre is anchored by a hypermarket, *Bilka OneStop*, owned by domestic supermarket group *Dansk Supermarked*, and a 12,000 sqm *Debenhams* department store. Also *Stadium*, *El-giganten* and *Hennes & Mauritz* have flagship stores in *Field's*.

With the exception of *Fisketorvet*, *Field's* and *Ro's Torv*, the regional shopping centres of Copenhagen have existed for several years. Since *Field's* was completed in 2004, no regional centres have been built in Greater Copenhagen. Future out-of-town shopping centre developments are restricted by regulations imposed by the Danish Parliament, and after the approval of an expansion of existing shopping centres and the develop-

ment of *Field's* in Ørestad and *Ro's Torv* in Roskilde, we do not expect an approval of any new major shopping centres in the Greater Copenhagen area for some years to come.

2.6 The local shopping centres

Local centres are typically located close to S-train stations, as the trade in local centres is primarily trade in convenience goods. Shopping must be easy for customers who do not own a car. Local centres are therefore dominated by convenience stores, typically supermarkets and a few specialty shops, e.g. a baker's, greengrocer's and a butcher's shop.

In addition, local centres accommodate a number of the most common specialised shops, such as fashion stores, sportswear and sports equipment stores, radio and television stores and toy stores. Generally speaking, specialised shops in these centres offer a limited assortment, including only the most common articles available in the product area in question.

Local centres or local shopping areas do not compete significantly with regional centres. The two shopping types complement each other, covering 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 specialties.

The rented area in local shopping centres typically ranges between approximately 4,500 sqm and 20,000 sqm, the average rented area comprising approximately 10,000 sqm. Sales per sqm averaged approximately DKK 37,800 (EUR 5,065) in 2004.

2.7 The retail warehouse market

The retail warehouse concept is a popular, albeit only moderately developed market concept in the Copenhagen market where immediate possibilities for further developments seem slim. 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.

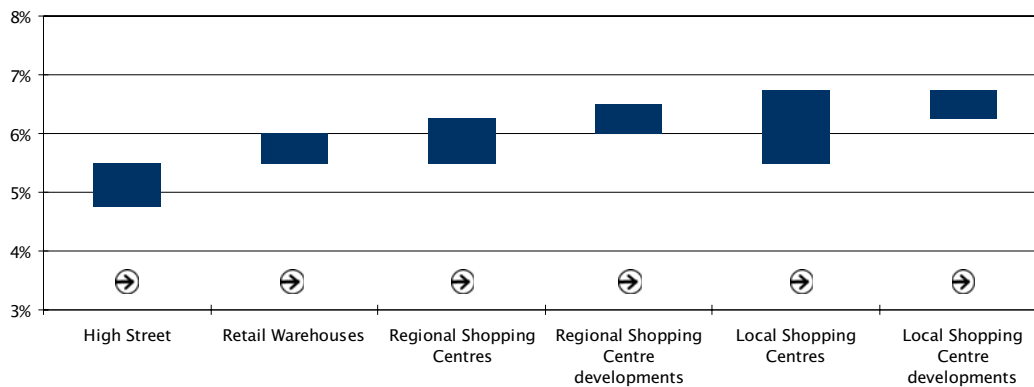
One of the main reasons why the retail market and to some extent the market for shopping centres are not further developed is the government imposed restrictions in this field.

3. The retail property investment market

Lack of investment opportunities combined with increasing demand from both Danish and international investors have pushed prices for retail property in Greater Copenhagen up and net initial yields down, in particular within the last year.

At the moment, net initial yields on high street retail property are at the lowest level seen for many years, ranging from 4.75% to 5.5%. Even in secondary retail locations, such as the Copenhagen Latin Quarter and Grønnegade area as well as in Lyngby, just north of Copenhagen, yields are below the 6.0% bracket, and in one or two transactions seen as low as 5.25%.

Net initial yields, retail



Note: Arrows indicate market expectations for 2006.
Source: Sadolin & Albæk

For several years, the investment market for retail property in Copenhagen has been dominated by private investors, including tax-driven limited partnerships, in Danish called *kommanditselskaber* or abbreviated K/S. One of the main reasons why the private investors find investments in the retail property market attractive is the beneficial tax depreciation rules on retail properties.

In general, the K/S partnerships operate with a very high degree of leverage, making financing costs a key concern. As a result, the retail property markets in which these partnerships operate are properly more susceptible to interest rate movements than the commercial property market in general. The tax-driven partnerships typically invest in volumes of up to DKK 150m (EUR 20m).

In most cases, however, private investors seem to outbid the tax-driven limited partnerships on property located in the very best locations. This is due to the fact that the

wealthy private investors typically operate with a higher equity ratio and are consequently less dependent on external funding.

The domestic institutions are demanding higher yields and are thus pushed out of the high street market, even in the market for property with an investment volume in excess of DKK 150m (EUR 20m). The main reasons for this are their inability to benefit from the same tax depreciation rules as the private investors, and their higher net initial yield targets to date. Given a stable low interest rate level and a higher capital inflow into the pension funds, and resulting increased placement requirements, it will be interesting to see for how long the domestic institutions intend to opt out of the high street market.

The year 2003 was marked by the large-scale entry of international investors into the Danish retail property investment market. Despite differing investment strategies, foreign investors accounted for an aggregate investment volume of DKK 3.1bn (EUR 415m). Unlike in 2003, 2004 saw no sizeable retail property investments on the part of international investors. This is not so much because the international investors failed to target this market segment, but rather because major international investments were not offered on the market to any significant extent. In 2005, however, some large international investments were again made on the Danish retail property market, the most prominent being the acquisition of the *Illum* department store. This transaction alone accounted for some DKK 1.2 bn (EUR 160m). The demand from international investors is expected to continue.

Recent notable transactions in the Greater Copenhagen retail market include:

- The department store, *Illum*, was sold by Merrill Lynch to the Baugur Group in August 2005 at a price of approximately DKK 1.2bn (EUR 160m), reflecting an estimated yield of 6,75%.
- In June 2005, a private investor acquired the department store of *Illums Bolighus*, located at 'Strøget' and comprising 9,950 sqm of space, at a price of DKK 260m (EUR 35m).
- *Steen & Strøm* acquired the remaining 50% stake in the shopping centre development *Field's* in Ørestad at a price of DKK 1.1bn (EUR 147m) in December 2004. However, the price will be adjusted subject to the performance of the centre as at March 2007. *Field's* is now wholly owned by *Steen & Strøm*.

- The financial sale and leaseback of department store *Magasin Kgs. Nytorv*, with a 20-year lease and an option for Magasin to buy the property back within the first four years. The property was sold to *Jyske Bank* in April 2004.
- The sale and leaseback of department store *Magasin Lyngby*, with *Magasin* as tenant. In April 2004, the property was sold to *HSH Nordbank* at a price of DKK 445m (EUR 60m), reflecting an estimated yield of 6.5%.
- In June 2004, *Ejendomsvækst* acquired three properties let to *ILVA* on 15-year leases, including a large furniture retail warehouse in Ishøj, comprising 16,000 sqm of space. The properties were sold at an estimated net initial yield of 6.25% and a price of DKK 660m (EUR 89m).
- Several high street properties, including *Amagertorv 24 (Matas)*, *Amagertorv 33 (Indiska)*, *Østergade 13* (retail tenants *Mulberry* and *Samson Pelse*), *Vimmelskiftet 36-38 (Tie Rack)*, *Vimmelskiftet 39-41* (redevelopment), *Frederiksberggade 38* (tenant *Discothèque Absalon*) and *Højbro Plads 3* (let to *Café Baresso*), were sold to primarily private investors and tax-driven limited partnerships during 2004 at net initial yields ranging from 5.5% to slightly below 6.0%.
- The acquisition of *Cityarkaden*. This retail arcade located at the corner of 'Strøget' and Bremerholm was acquired in 2003 by *AIG* at a price of DKK 218m (EUR 29.5m), reflecting an estimated net initial yield of 5.5%. The investment is, however, considered highly reversionary and with excellent redevelopment potential.
- On the main shopping street of Lyngby, several properties were sold in late 2004, mostly to tax-driven limited partnerships but also to property companies, at net initial yields ranging from 5.75% to 6.0% - one property even trading at down to 5.25%, including e.g. *Lyngby Hovedgade 56 (Masai)*, *Lyngby Hovedgade 60 (Bahne)*, *Lyngby Hovedgade 80-82* (anchor tenant *ISO* supermarket) and *Lyngby Hovedgade 84* (with tenants such as *Svane Køkkenet*, *JKE Design*, *Invita Køkkener* and *Skousen Husholdningsmaskiner*).

Oktober 2005

Rikke Wümpelmann

Peter Frische

List of shopping centres placed on the map on page 7:

Regional centres

- 1 City 2
- 2 Field's
- 3 Fisketorvet
- 4 Hundige Storcenter
- 5 Ishøj Bycenter
- 6 Lyngby Storcenter
- 7 Rø's Torv
- 8 Rødovre Centrum

Local centres: Copenhagen, Frederiksberg and Copenhagen County

- 9 Albertslund Centrum
- 10 Amager Centret
- 11 Ballerup Centret
- 12 Brøndby Strand Centret
- 13 Buddinge Centret
- 14 Frederiksberg Centret
- 15 Frihedens Butikcenter
- 16 Glostrup Butikcenter
- 17 Glostrup Storcenter
- 18 Herlev Bymidte
- 19 Holte Midtpunkt
- 20 Hvidovre Stationscenter
- 21 Høje Gladsaxe centret
- 22 Nørrebro Bycenter
- 23 Skovlunde Centret
- 24 Sorgenfri Torv
- 25 Tårnby Torv
- 26 Vest-Amagercentret
- 27 Værløse Bymidte

Frederiksborg County

- 28 Espergærde Centret
- 29 Farum Bytorv
- 30 Helsingør Bycenter
- 31 Humlebæk Centret
- 32 Hørsholm Midtpunkt
- 33 Kongevejscentret (Hørsholm)
- 34 Nivå Center
- 35 Prøvestenscentret
- 36 SlotsArkaden
- 37 Stenløse Center

Roskilde County

- 38 Greve Centret
- 39 Jyllinge Butikcenter
- 40 Solrød Centret
- 41 Tune Centret
- 42 Ølby Centret

Important shopping areas

- 43 Helsingør Bymidte
- 44 Hillerød Bymidte
- 45 Køge Bymidte
- 46 Roskilde Bymidte