



04

COPENHAGEN AND MALMOE

PROPERTY MARKET REPORT 2004

CONTENTS

Introduction	4
Sadolin & Albæk	6
The Scandinavian economies and property markets	10
The Sadolin & Albæk property price index ...	22
OFFICE	
Trends in the Copenhagen and Malmoe office market	25
The Copenhagen CBD office market	30
The Greater Copenhagen and Malmoe office areas	34
The office property investment market	41
RETAIL	
The retail property market	44
The retail property investment market	50
INDUSTRIAL	
The industrial property market	52
The industrial property investment market ..	57
MARKET PLAYERS	
Market players	58

COPENHAGEN AND MALMOE

PROPERTY MARKET REPORT 2004



INTRODUCTION

Economic growth in the Copenhagen/Malmoe area, named the *Øresund* region, has been affected by the global economic downturn. Although still at a low level, unemployment has risen, and GDP growth in 2003 stood at a mere 0.3%.

Nonetheless, unlike many other European economies, the fundamentals of the region remain strong. Unemployment figures are forecast to stabilise, private consumption is increasing, and the region is predicted to sustain a growth rate in 2004 - 2005 that will be one of the highest among Western Europe's metropolitan areas.

The very core of the region's potential lies in the quality of the workforce. With approx. 130,000 students enrolled in its 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.

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.

The property market has of course been affected by the economic downturn. Vacancy rates have risen in the office and industrial sectors, rents have come under slight pressure, and development activity has cooled off substantially.

On the other hand, an anticipated recovery in 2004 and 2005 will create new opportunities in the property sector. Property investments benefit from low bond rates and financing costs, and with some prospects for rental growth, the commercial property market offers attractive returns compared to virtually all other European markets.

This 2004 market report by Sadolin & Albæk offers an updated overview of general economic trends and of the Greater Copenhagen and Malmoe commercial property markets, including occupier and investment market

information and details on important transactions in various sectors and sub-markets.

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

- The Property Association of Denmark (Ejendomsforeningen Danmark – the trade organisation for rental property and property management)
- Danske Bank, Economics Department
- Copenhagen Capacity, Agency for Investment and Development of Trade and Industry in Greater Copenhagen
- DnB Næringsmegling, 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, the Sadolin & Albæk staff is at your full disposal.

Copenhagen, February 2004

Sadolin & Albæk • ONCOR International



Peter Winther

Carl Erik Dalbøge

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 continuously 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, business and finance, and 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/Development projects](#)
[Property 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 when mediating even the largest property or portfolio investment deals as well as when managing the sales and acquisition process in the best interest of our clients.

Investment consulting

[Portfolio analysis](#)
[Portfolio strategies](#)
[Asset management](#)

In response to the increasing focus on enhancing returns on investment property portfolios and the increasing 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



Jeanette Rosenberg Andreas Grønbaek Kurt Albæk

lio 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 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

Sadolin & Albæk conducts more than 350 valuations of commercial properties 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.



Søren Thestrup

Peter Frische

Development consulting

Development and redevelopment strategies
Feasibility studies

At Sadolin & Albæk, 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.

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 Næringsmegling AS, Norway

We have expert knowledge of our home market. In acknowledgement, however, of the regionalisation currently taking place in the Nordic 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 sub-



Jesper Melhede

Jan Kristensen



Morten Schultz

Andreas Albæk

Thomas Køhl Christensen

sidiary of the largest commercial bank in Norway – is a dominant property consultant in both Oslo and Bergen. DnB Næringsmegling AS 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 more than 200 markets throughout the United States, Canada, Europe, Asia, South Africa, and Latin America.



NORWAY

Oslo

SWEDEN

Stockholm

DENMARK

Copenhagen
Malmö

0 35 70 km

THE SCANDINAVIAN ECONOMIES AND PROPERTY MARKETS

- Danish GDP growth expected to bounce back in 2004, to 2.2%. Similarly, GDP growth is expected to reach 2.4% and 2.8% in Sweden and Norway, respectively
- Historically strong increases in productivity in Denmark have caused a moderate rise in unemployment
- Although Swedish competitive strength has weakened, exports continue to rise as Swedish export markets expand
- Fall in interest rates has yielded higher consumption growth in Norway

The Danish economy

The continued appreciation in 2003 of the Danish currency against the US dollar was the result of capital flowing out of the United States and into Europe, as confidence in the US economy waned. However, recent key figures indicate that the US economy once again may rise to its previous performance, reinstating the United States as the world's growth driver.

Recession hit Denmark in 2003, but it is expected to be short-lived. Danish GDP growth in 2004 is forecast to be 2.2%, with the economy bouncing back after the slump in 2003 when growth was recorded at a mere 0.3%. However, we expect that 2004 growth rates

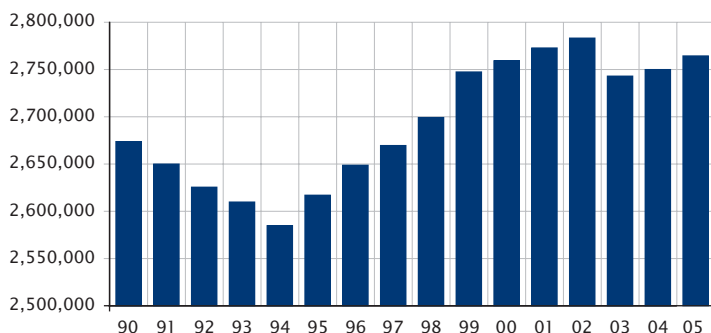
will primarily be sustained by increased activity late in the year.

Over the last 12 months, unemployment has risen moderately. However, rising unemployment is not expected to have the usual negative impact on the economy. We see two main reasons for this:

Firstly, the high investment rates from 2000 to 2002 triggered historically high productivity gains in 2003, as cost-minimising strategies were employed in almost all sectors of the economy: A strategy primarily stimulated by the toughened economic conditions. Thus, employment fell somewhat markedly in 2003. Unemployment currently stands at an estimated 5.9% and is expected to increase slightly in 2004 to some 6.0%, and to improve to around 5.7% in 2005, due to the intensified economic activity forecast for 2004.

Secondly, tax cuts are being implemented in 2004, which in conjunction with the introduction of interest-only mortgages will encourage lending and stimulate private consumption. As a result, consumption is expected to be one of the primary growth drivers in Denmark in 2004. Private consumption is expected to increase by 3.0% in 2004 and 2.2% in 2005.

Employment, Denmark



Sources: Statistics Denmark and projections by Danske Bank

In 2003, inflation was 2.1% and thus remained slightly above the announced Euroland target of 2.0%. Inflation is expected to fall below the Euroland target in 2004 to 1.4%, but is expected to move back up to 2.1% in 2005. The continued appreciation of the Danish krone, keeping imported inflation at a minimum, and a projected increase in unemployment will continue to help curb inflation in the years ahead.

The 10-year benchmark government bond yield was 4.4% at the beginning of 2004, and forecasts indicate that yields will rise moderately over the year. This interest rate level is well in line with general developments in Euroland, and the narrow yield gap between Danish bonds and eurobonds will remain at an estimated 15 - 20 bp. The limited spread is 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 $\pm 2.25\%$.

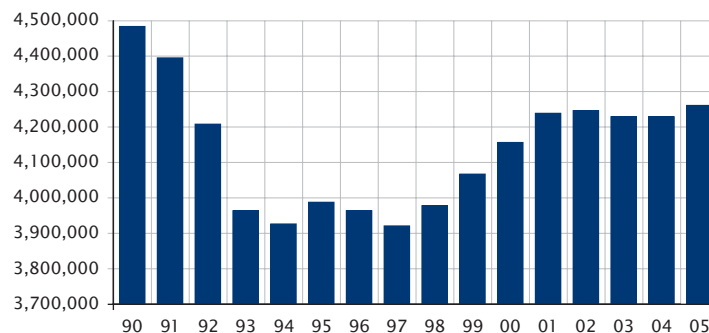
The Swedish economy

In 2003, the Swedish population voted to reject the euro. The implications on the capital markets have been transitory, but have constantly kept the yield gap between the euro and the Swedish krona in the 50 - 60 bp range. The spread has resulted in an appreciation of the Swedish krona against the US dollar.

The Swedish economy is not as hard hit by the international recession as the rest of Europe. GDP growth in 2003 was 1.5%. One of the main reasons for the relatively high growth rates is the increase in exports primarily to other European countries. However, the continued high private consumption rate has also been an important growth driver. As the export markets are expected to come under pressure if the Swedish krona continues to appreciate, private consumption will play a persistently greater role in keeping up growth rates in 2004. Although exports are expected to increase in 2004 as a consequence of Sweden's ever more diverse range of export countries, imports will rise at a similar pace. Thus, expected growth rates in private consumption of 2.4% will be sufficient to stimulate GDP growth in 2004, which is forecast at 2.4%. The 2005 forecast calls for a level of 2.6%.

The labour market may arguably present the greatest challenge for the Swedish economy in the years ahead. By year-end 2003, unemployment was 5.1% relative to 4.0% in 2002, marking a quite severe increase, as employers have cut jobs to accommodate an increased pressure for low costs. Depending on the outcome of the budget negotiations and the impact of the increased economic activity on the labour market forecast for 2004, a small decrease in unemployment to 5.0% is anticipated.

Employment, Sweden



Sources: Statistics Sweden and projections by Danske Bank

Unemployment in 2005 is forecast to fall to 4.8%.

As unemployment is high, the persistent pressure on wages seen over the last couple of years has eased off, resulting in a somewhat lower rate of inflation. In recent years, the inflation rate has been a little over 2%. In 2003 and 2004 inflation is expected to fall somewhat to 1.2% and 1.8%, respectively

At year-end 2003, the yield on 10-year government bonds was 4.7%. Forecasts for 2004 indicate that this level will increase slightly. The Swedish yield spread to the euro is expected to remain at its present level.

The Norwegian economy

In 2003, the Norwegian economy was affected by a remarkable fall in interest rates, which are now in line with the Euroland level. This fall has reduced the considerable capital inflow otherwise experienced by Norway in recent years. However, recent interest rate cuts have caused the Norwegian krone to depreciate, while stimulating the competitiveness of Norwegian businesses.

Furthermore, competitiveness has been enhanced by reduced wage increases. Wages are expected to rise at a rate of 4.0% in 2004,

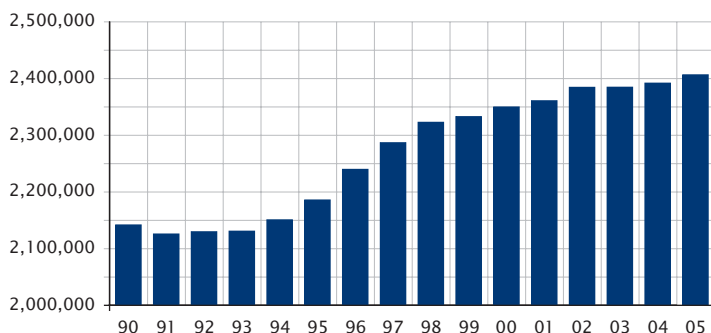
which is well below the rate that Norwegians have experienced in recent years.

Nevertheless, the lower interest rates are expected to boost private consumption. Thus, 2004 will quite likely yield record high consumption rates with a predicted 4.3% increase. Subsequently, Norwegian growth will be driven by private consumption, and mainland GDP growth is forecast to reach 2.9% in 2004, strongly outperforming 2002 and 2003, which both yielded recession-like growth rates. Mainland GDP growth is expected to be 2.0% in 2005.

The depreciation of the Norwegian krone will coincide with low inflation in 2004, given the lagged effects of the krone appreciation of 2003. Inflation was 2.5% in 2003, but is expected to fall to 1.3% in 2004. One of the reasons for the low inflation rates is the reduced wage pressure, but also the depreciation of the Norwegian krone will affect the economy in late 2004.

Investor reactions to the lower interest rates will have a tendency to overshoot. Thus, interest rates are expected to rise again to above their present level, increasing capital inflows and once more appreciating the krone. Furthermore, the expected increase in interest rates will widen the yield gap between the

Employment, Norway

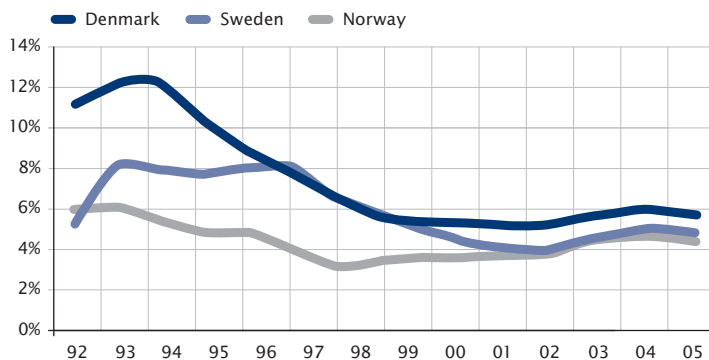


Sources: Statistics Norway and projections by Danske Bank

Norwegian krone and the euro. By year-end 2003, the yield on 10-year government bonds was 4.6%, reflecting a yield gap of 35 bp to the euro. Correspondingly, interest rates by

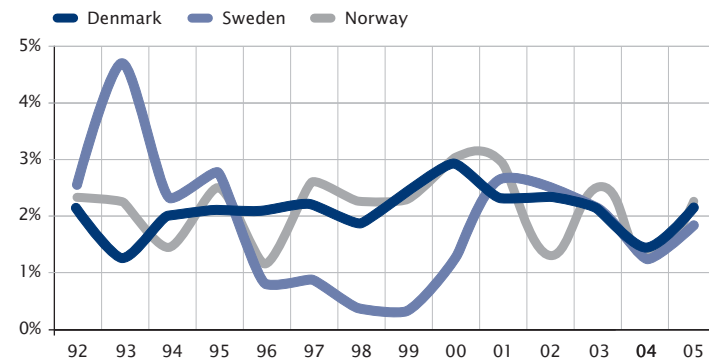
year-end 2004 are expected to reach 5.3%, reflecting a forecast yield gap of 65 bp to the euro by that time.

Unemployment rate



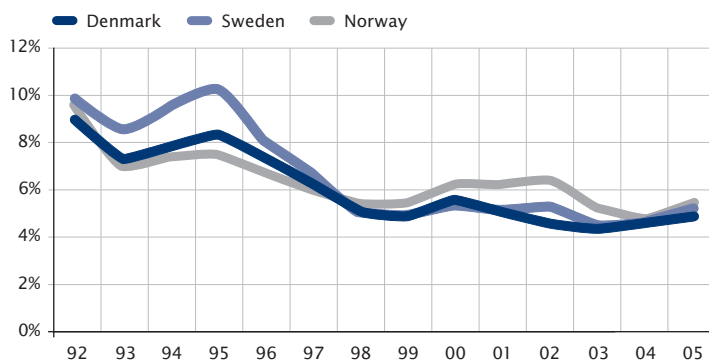
Sources: Statistics Denmark, Statistics Sweden, Statistics Norway and projections by Danske Bank

Inflation



Sources: Statistics Denmark, Statistics Sweden, Statistics Norway and projections by Danske Bank

Yields on 10-year government bonds



Sources: Statistics Denmark, Statistics Sweden, Statistics Norway and projections by Danske Bank

The Copenhagen property market

- Office stock in Greater Copenhagen of 11 million sqm
- Prime rent levels expected to remain at DKK 1,650 per sqm p.a. throughout 2004
- Prime office yields currently stand at 6.5%, but are believed to be falling
- Industrial rent levels have come under pressure

Until early 2003, new office developments dominated the Copenhagen office property market. Owing to a continued increase in the supply of office premises, and a coinciding weakened occupier demand, office premises in traditional CBD sub-areas were left with relatively high vacancy rates. However, standing at 7.6%, Copenhagen office vacancy rates are low in an international context.

The steady stream of new office premises has now slowed to a trickle, which has been warmly welcomed by landlords as the trend in vacancy rates throughout the second half of 2003 has slowly decelerated, and most likely vacancy rates will come down in 2004. However, the anticipated increase in economic activity in 2004 will probably only have a moderate effect on office demand, as employment still suffers under productivity increases in most business sectors.

The office stock in Greater Copenhagen comprises approx. 11 million sqm, of which 3 million sqm can be defined as CBD (Central Business District) space. Copenhagen offers a wide range of diversified location opportunities. Recent Copenhagen CBD construction developments have been concentrated around the extensive waterfront areas, particularly around *Kalvebod Brygge*, *Kalkbrænderihavnen* 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 office premises are dominant along the arterial roads around Lyngby.

Office rent levels in all segments came under pressure in 2003, but have generally reacted moderately, decreasing by an overall average of just below 5%. Only some particular areas, such as *Sydhavnen*, which is home to a large number of IT companies, and *Ørestad*, a peripheral development area, have seen a more substantial drop in prime rent levels (of about 8 - 10%).

Prime rents in the CBD area are in the range of DKK 1,200 - 1,650 (EUR 160 - 220) per sqm p.a. exclusive of operating costs, whereas secondary office rents run at DKK 900 - 1,200 (EUR 120 - 160). We expect that in spite of the moderate declines, the market has now seen the necessary corrections in prime office rent levels that were needed to adapt to present occupier demand. Thus, prime office rent levels are believed to remain at their present level in 2004.

Currently, prime office net initial yields stand at 6.5%, reflecting a moderate increase since 2002 due to the sluggish occupier market. We expect that this level will come down in 2004, as investor interest is set to remain strong and as the occupier market is showing signs of recovery. Secondary net initial yields are expected to remain at their present level of 7.25% in 2004. Investors are currently speculating in a property market recovery, which is strongly reflected in the yield levels of secondary office property.

Letting activity was substantial in the Copenhagen high street areas in 2003. The increasing tenant interest for high street shops is partly motivated by the private consumption boost anticipated to set in over the next few years. Nevertheless, high street retail rents have been stable throughout 2003, and are expected to maintain their present level in 2004. Currently, high street retail space commands prime rents in the range of DKK 3,500 - 19,000 (EUR 470 - 2,500) per sqm p.a. exclusive of operating costs. Secondary retail rents run somewhat lower, i.e. DKK 1,000 - 3,300 (EUR 70 - 75). Considerable interest on the part of both international investors and

domestic private investors has led to a reduction in high street yields, which currently range from 5.5 - 6.0%. Secondary yields are at a level of 6.5 - 7.25%.

Rent levels for production and warehouse facilities have been very stable for a long period of time. However, owing to the continually growing discrepancy between modern tenant requirements and the actual quality of the industrial property stock as well as a generally weakened demand for industrial premises, industrial rent levels dropped in 2003. Current prime industrial rent levels are around DKK 500 - 525 (EUR 65 - 70) per sqm p.a. exclusive of operating costs. However, net initial yields remained unchanged during 2003 and currently stand at 7.5 - 8.0%. The rent for secondary production and warehouse space typically amounts to DKK 350 - 375 (EUR 45 - 50) per sqm p.a. exclusive of operating costs, and secondary yields are stabilising at a level of around 9.5%.

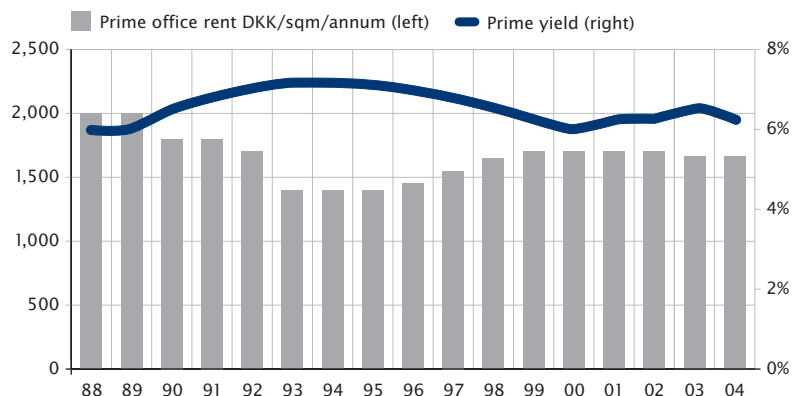
The Malmoe property market

- Malmoe is Sweden's third largest city and the capital of Scania with a regional population of 1.4 million
- Despite a level of 13% overall, office vacancy rates are historically low
- Prime office rents seem to have stabilised at SEK 1,600 per sqm p.a.
- Prime office yields increased by 25 bp over year 2003 to 7.0%

Viewed in a historical context, Malmoe office vacancy rates rose only moderately in 2003, ignoring a sluggish occupier market. With a current vacancy rate of 13%, Malmoe office vacancies are now at the year-end 2001 level.

The relatively low vacancy rates are partly a result of the near-suspension of new office construction projects: Very few were completed in 2003, and only a limited number of projects are in the pipeline despite a large development potential. It seems that developers and contractors have learnt from past mistakes in following market trends, putting a stop to new developments in time, and very few speculative projects are being built. The

Rents and yields in Copenhagen



Source: Sadolin & Albæk

fact that only a few development projects are currently put on the market may signal falling office vacancy rates.

The overall vacancy rate of 13% covers a somewhat diverse Malmö office market. The market comprises a fairly large share of office stock that may be considered secondary and which is less coveted than the more up-to-date premises, which are in moderate supply. These differences in quality drive a gap between primary and secondary rent levels as vacancies in the less popular segments contribute strongly to the overall vacancy rate.

Malmö is the capital of the Scania (Skåne), Halland and Blekinge regions, which are among the most densely populated in Sweden, and the Greater Malmö office stock comprises 1.2 million sqm of space. Malmö is fast becoming an important location for a number of companies in the international pharmaceutical and telecommunications industries.

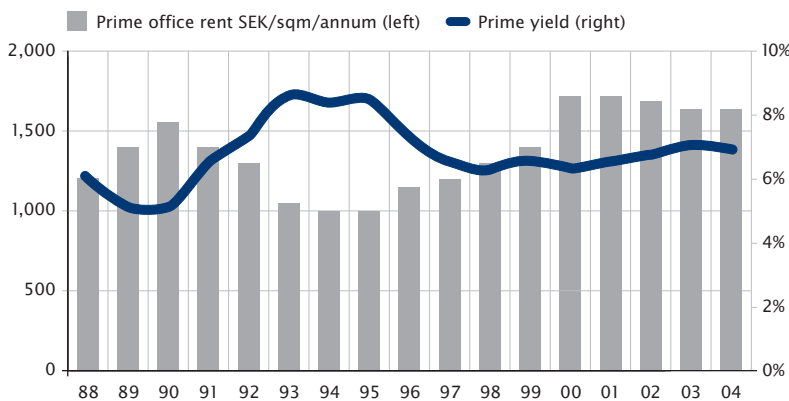
Although the prime office letting market is relatively small, office rent levels were affected by the moderate activity in the occupier market in 2003. The prime office rent in Malmö is currently SEK 1,500 - 1,700 (EUR 165 - 185)

per sqm p.a. exclusive of operating costs, whereas the rent for secondary office space is typically in the SEK 1,100 - 1,200 (EUR 120 - 130) range. Prime office net initial yields have increased by 25 bp since 2002 to a level of some 7.0% today, with secondary yields of around 8.25%.

In prime retail locations, vacancies are very scarce, i.e. below the 2.0% mark, with the best location premises fully let. Nevertheless, a minor increase in retail vacancy rates has been recorded in some prime locations. Prime retail rents are currently SEK 2,750 - 5,250 (EUR 300 - 580), whereas secondary rents run at SEK 1,200 - 2,200 (EUR 130 - 240). Prime retail yields stand at around 6.5%, with secondary yields at 7.5%. Yields on less coveted, secondary retail locations will be somewhat higher than the level specified.

Prime location warehouse and production facilities currently command rents of SEK 500 - 850 (EUR 55 - 95) per sqm p.a. exclusive of operating costs and net initial yields of around 9.25%, whereas rents for secondary warehouse and production facilities typically amount to SEK 300 - 500 (EUR 35 - 60), with secondary yields stabilising at an estimated 10.0%.

Rents and yields in Malmö



Source: Sadolin & Albæk

The Stockholm property market

- Prime office rents are stabilising
- Despite a stagnant occupier market prime office yields have fallen slightly and currently stand at 6.25%
- CBD office vacancies expected to have peaked at 10%

Apparently, the Stockholm property market is slowly beginning to recover from its trough. Following a couple of years with a highly active occupier market coinciding with increasing investment activity, the Stockholm property market came under pressure as the IT bubble burst in 2001. Until late 2003, still more tenants tended to vacate their premises in the CBD, relocating to less expensive office premises. The result was falling CBD rent levels.

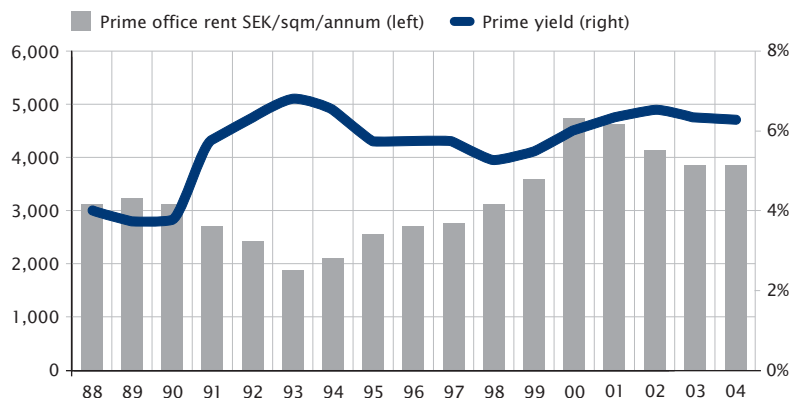
With an office stock of approx. 10 million sqm, Stockholm is one of the largest office markets in Scandinavia. The city's most attractive area for office locations is the "Golden Triangle" situated between the three squares of Stureplan, Norrmalmstorg and Nybroplan. Rent levels within the Golden Triangle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

The relocations away from the CBD meant that vacancy rates continued to rise in 2003. Vacancy in Stockholm CBD increased by 350 bp to stand at 10% at the beginning of 2004. These high vacancy rates are the result of a weak occupier market and not an oversupply of new developments. In fact, new construction activity has fallen sharply, as has new contracting activity. Thus, the rapid upward curve in vacancy seen in the last two years may come to an abrupt halt in 2004 when the occupier market is believed to pick up.

The Golden Triangle has suffered the most dramatic impact of the economic slump that began in 2001, at a time when rent levels were particularly high. Now, in early 2004, it would seem that rent levels in this area have bottomed out. In 2003, prime office rents in the CBD dropped and currently stand at SEK 3,200 - 3,900 (EUR 345 - 420) per sqm p.a. exclusive of operating costs. The same applies to office rent levels in other parts of the inner city, which are currently in the range of SEK 1,800 - SEK 2,700 (EUR 195 - 290). The fall in CBD rent levels has narrowed the rent gap between prime and secondary locations. Secondary office rent levels run at SEK 1,000 - 2,000 (EUR 110 - 220) per sqm p.a., more or less maintaining the level of 2002.

The Stockholm property investment market has not suffered as much as the occupier

Rents and yields in Stockholm



Source: Sadolin & Albæk

market under the adverse economic climate. However, investors have focused on tenants of good financial standing, and long leases have made investors confident in terms of cash flow. Thus, prime investment yields have fallen slightly in the course of 2003, and prime office yields in the Golden Triangle currently stand at 6.25%, whereas office property in other parts of the inner city is trading at around 7.0%. Secondary office yields currently stand at 7.75%. Investment yields are expected to come down in all office market segments over the next year.

High street retail rents currently range from SEK 5,000 to 12,000 (EUR 540 - 1,290) per sqm p.a. exclusive of operating costs, and are expected to rise in 2004 as private consumption picks up. Secondary retail rents amount to SEK 3,000 - 4,500 (EUR 325 - 485). Prime and secondary retail yields are 6.0% and 7.5%, respectively.

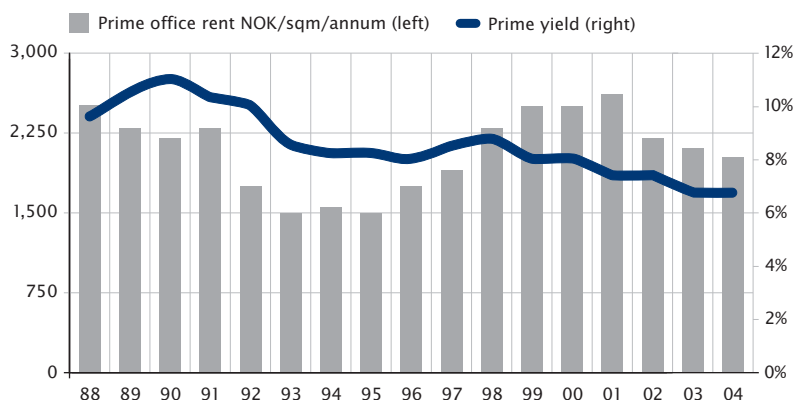
Prime production and warehouse facilities currently command rents of SEK 700 - 900 (EUR 75 - 95) per sqm p.a. exclusive of operating costs, with prime net initial yields at a level of around 8.75%, whereas rents for secondary production and warehouse space typically run at SEK 350 - 600 (EUR 40 - 55) per sqm p.a. Secondary yields are stabilising at around 9.5%.

The Oslo property market

- Oslo vacancy rates up by 140 bp in the past 12 months but now seem to be stabilising
- Lower interest rates have caused overall yield requirements to drop by 50 - 100 bp
- Prime office rent at around NOK 1,900 per sqm p.a.

Prime business areas in the Oslo CBD are the Government Area, Aker Brygge (harbour area) and the area around Oslo central station. Vacancy rates in Oslo soared at a fairly rapid pace in late 2002, mainly owing to the large-scale development projects in the harbour areas that have added dramatically to the existing office stock in recent years. The subsequent recession in the Norwegian economy rendered a large share of the office premises redundant, and overall office vacancy rates increased from 6.3% in the third quarter of 2002 to 11.0% by year-end 2003. However, a significant part of this increase was seen in the fourth quarter of 2002, and vacancy rates only increased by 140 bp over the year 2003. CBD vacancy rates have, however, been stable at a level of 5.0%, reflecting the fact that occupiers have relocated from peripheral areas to the new development areas in the CBD. Today, the Greater Oslo office stock totals about 8.5 million sqm of space. In 2003, the oversupply of office space created a favour-

Rents and yields in Oslo



Source: Sadolin & Albæk

rable situation for office tenants, who increasingly demanded lease incentives and discounts. As a result, rent levels came under pressure, both in prime and secondary segments. However, indications are that the decline in rent levels has now ceased, as the net absorption of leased space is on the rise. Consequently, vacancy is expected to show a downward trend in 2004, and a drop in vacancy rates was in fact recorded by late 2003.

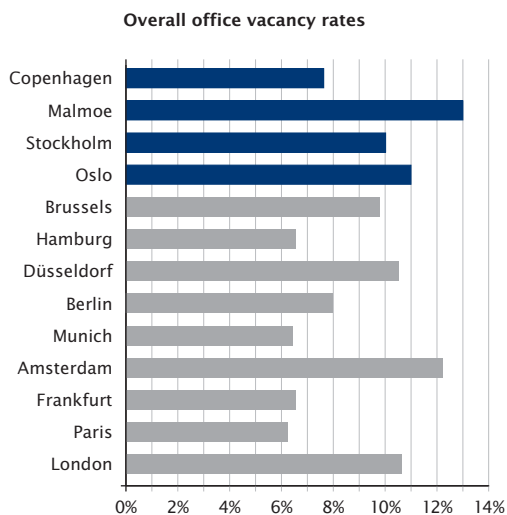
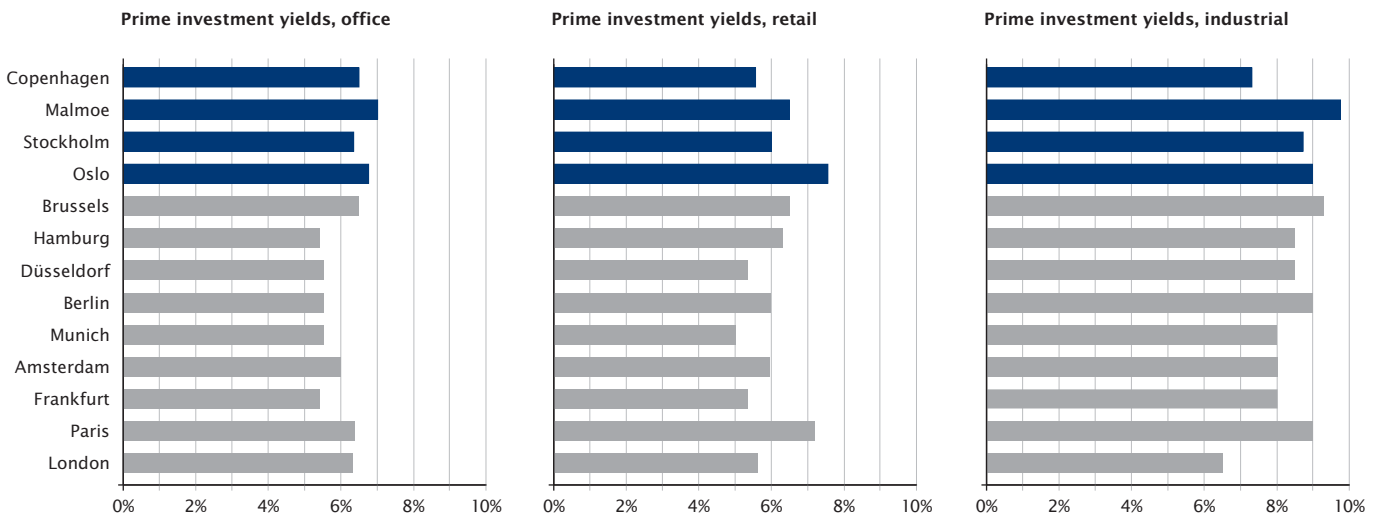
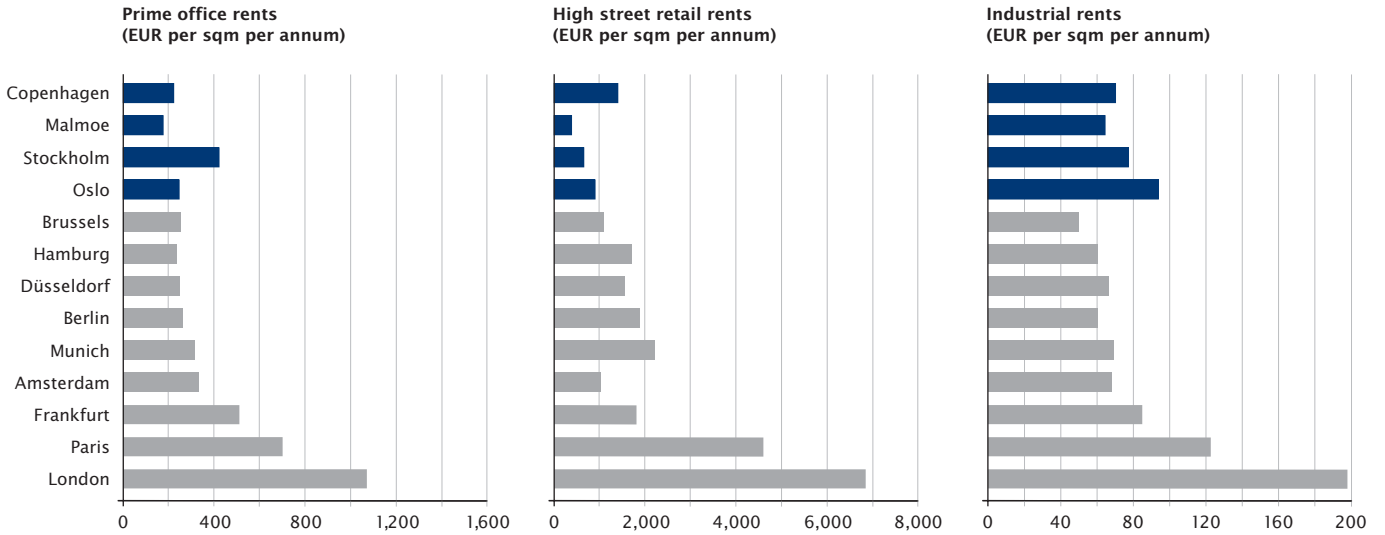
Just as interest rates came down in 2003, so did investment yield requirements. Overall yield levels have been reduced by 50 - 100 bp, resulting in higher capital values that have coincided with a stagnant occupier market.

Prime office rents stand at a level of NOK 1,900 (EUR 220) per sqm p.a. exclusive of operating costs, which is almost 15% below the 2002 level. Secondary office rents have seen a somewhat more moderate decline and are currently in the NOK 1,200 - 1,400 (EUR 140 - 160) range.

Yields in prime CBD locations were rather high in 2003, but fell by 100 bp in the course of the year and now typically run at 6.5 - 7.5%. Prime office yields are expected to remain at their 2003 level over the next 12 months. Secondary office yields are in the 7.5 - 9.0% range, having declined by only 50 bp.

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 5,000-14,000 (EUR 580 - 1,620) per sqm p.a. exclusive of operating costs, whereas secondary rents run at NOK 1,000 - 4,000 (EUR 115 - 460). Prime retail yields currently stand at 7.5%, and secondary yields are approx. 9.5%. Secondary retail locations have suffered a 100 bp drop in yield requirements since late 2002, whereas prime retail locations have seen reductions of 50 bp.

Prime warehouse and industrial facilities currently command rents of NOK 600 - 800 (EUR 70 - 90) per sqm p.a. exclusive of operating costs, indicating prime net initial yields of around 9.0%, whereas rents for secondary space typically amount to NOK 400 - 600 (EUR 45 - 70), with secondary yields as high as 11.5%. Industrial yields have not dropped despite the lower interest rates.



Source: Sadolin & Albæk • ONCOR International

THE SADOLIN & ALBÆK PROPERTY PRICE INDEX

- Capital returns on commercial property in Greater Copenhagen negative by 1.2% in 2003
- Average income return stable at 6.7% bringing the total average return to 5.5% in 2003
- Commercial property performed better than the investment risk would indicate

Following a period of positive capital returns on property investments since 1994, capital growth in 2003 was negative by 1.2%, a decrease in capital returns of 920 bp relative to 2002. However, total return on property continued to be positive at 5.5%, reflecting an income return level that has remained at its 2002 level of 6.7%.

The decrease in capital returns must be viewed in the context of a sluggish occupier market in 2003. Renegotiated as well as new leases are thus committed at lower rent levels and higher vacancy rates moreover contribute to a reduction in cash flows. Nevertheless, as the sluggish occupier market has not to any significant extent been reflected in higher yield levels, property price reductions have been moderate.

In anticipation of a renewed rise in rent levels in 2004, we expect the current effect of falling

rent levels on price developments to be of a temporary nature, but capital returns may well continue to be negative until 2005.

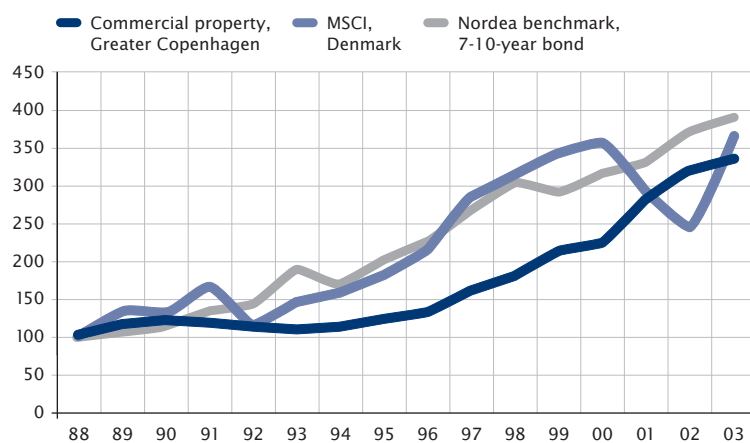
Since 1985, income return has ranged between 6.7% and 8.8%, whereas capital growth has fluctuated between -11.8% and 31.3%. From 1985 to 2003, total return was negative only from 1991 to 1993, whereas the average total return since 1995 has been 13.6%.

Property vs. stocks and bonds

On the basis of data for total stock market returns from Morgan Stanley, Nordea benchmark bonds and Sadolin & Albæk's total return index for commercial property in Greater Copenhagen we have calculated the return and risk on property investments from 1988 to 2003.

Despite the negative capital growth rates in 2003, commercial property outperformed 10-year government bonds that yielded a total return of 4.4% some 110 bp lower than commercial property. However, the current bull market on the world's stock exchanges gave stocks a long-awaited comeback in 2003, and the *MSCI* (Morgan Stanley Capital International) stock index for Denmark yielded a remarkable 46.7% return to investors.

Historical returns on commercial property, stocks and bonds (index 100 = 1988)



Sources: Morgan Stanley Capital International, Nordea, Danmarks Nationalbank, and Sadolin & Albæk
Calculations by Sadolin & Albæk

Sharpe's Ratio, average risk and return on commercial property, stocks and bonds

	2003	1988-2003		
	Return %	Return %	Risk %	Sharpe's Ratio
MSCI, Denmark	46.7	11.1	22.0	0.2
Nordea benchmark, 7-10-year bond	4.4	9.8	10.5	0.9
Commercial property, Greater Copenhagen	5.5	8.7	8.1	1.1

In the long term, property yields a slightly lower return than both stocks and bonds. However, commercial property also exposes investors to a somewhat lower risk. From 1988 to 2003, stocks on the *Copenhagen Stock Exchange* yielded an average return of 11.1%, but carried a corresponding twice as high risk of 22.0%. In comparison, 10-year government bonds yielded a return of 9.8% against a risk of 10.5%. Commercial property yielded the lowest return on average, namely 8.7%, but carried a risk of only 8.1%.

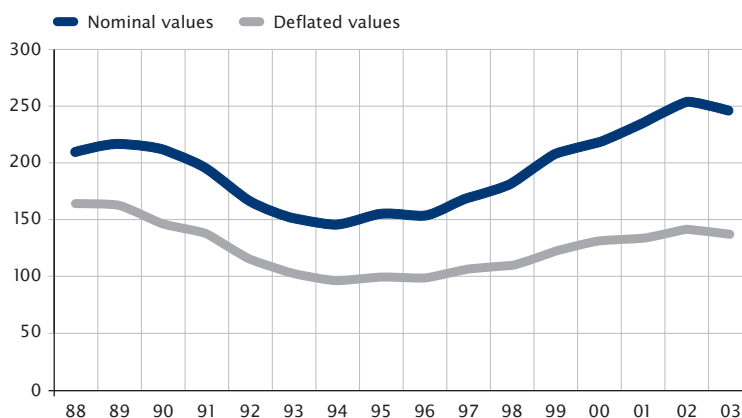
However, the risk return ratio measured as *Sharpe's Ratio* indicates that the lower return on property investments reflects a favourable trade-off for the correspondingly lower risk as compared with stocks and bonds. Sharpe's Ratio for commercial property from 1988 to 2003 is 1.1, whereas the figures for stocks and bonds are 0.2 and 0.9, respectively. The risk/return relationship thus seems to be in favour of property investments over the period, albeit the analysis reveals nothing about the ideal portfolio allocation of investments typically involving all asset classes and more stocks and bonds than property, primarily because of the greater liquidity of these assets.

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 approx. 1,100 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.

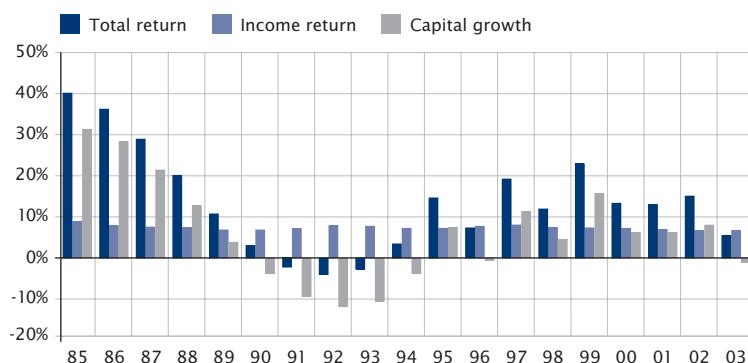
In this context, the return applied is the *average return* which denotes the most likely return or the return that investors may expect

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



Source: Sadolin & Albæk

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



Source: Sadolin & Albæk

in a random year on the basis of historical returns. The average return should not be mistaken for the expected compound interest on investments or the geometrical average used to measure the compound return on an investment. The risk is measured by the standard deviation, that is, the average deviation from the most likely return. The risk measurement applied here thus provides information on the extent to which the return fluctuates around the expected average return.

Sharpe's Ratio estimates the percentage return above the risk free rate of return per risk unit indicating the trade-off between risk and return.



TRENDS IN THE COPENHAGEN AND MALMOE OFFICE MARKET

- New office construction has plummeted by 60% from 2002 to 2004
- Overall office vacancy has increased to 7.6%, but is now stabilising
- Market rents have decreased by 5%
- Letting activity is picking up in line with the general economic recovery, in particular for minor tenancies

Activity in the Greater Copenhagen office rental market continued at a very modest pace in 2003.

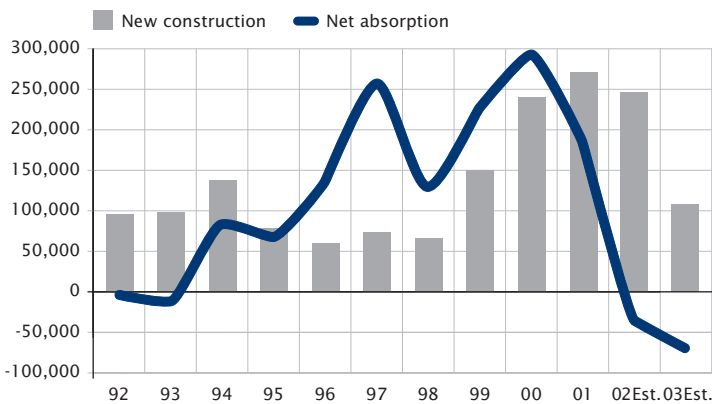
The overall office vacancy rate, which at the beginning of 2004 had increased to an esti-

mated 7.6%, seems to be stabilising, despite somewhat sluggish demand. An increased availability of high quality, vacant office space in strong locations has caused a dramatic reduction in new construction. Needless to say, this will stabilise the occupier market.

Whereas annual new construction comprised approx. 250,000 sqm of office space in 2000 - 2002, new office developments are estimated to be a mere 70 - 100,000 sqm p.a. in 2003 and 2004. Given a stabilised long-term annual net absorption of some 125 - 150,000 sqm, we see reason to believe that the overall vacancy rate will begin to fall once again, at least from late 2004 and in 2005.

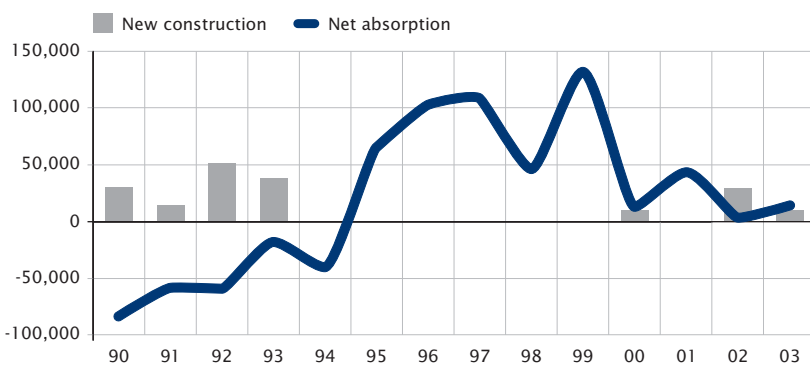
OFFICE
RETAIL
INDUSTRIAL
MARKET PLAYERS

Net absorption and completed construction (sqm office space), Copenhagen



Sources: The Danish Centre for Forest, Landscape and Planning under the Ministry of the Environment, and Sadolin & Albæk

Net absorption and completed construction (sqm office space), Malmoe



Source: NewSec

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INDUSTRIAL
MARKET PLAYERS

Although the CBD (Central Business District) office market still has relatively high vacancy rates, in particular in the old building stock, CBD vacancy is now estimated at 6.6% and thus lower than suburban vacancy rates. From late 2003 onwards, the market has recorded increased demand for office space in the city centre from small office tenants, who prefer central locations. In the current market, they are able to secure quite competitive terms.

Most office tenants with major area requirements, i.e. from 3,000 sqm and upwards, favour modern and flexible office premises, however, either on the harbour front or in suburban locations.

It is worth mentioning that a number of rather large buildings in the CBD, especially those dating from the 1950s and 1960s, are now being converted into residential use, which in 2004 will in itself remove some 40,000 sqm of office vacancies from the market. On the other hand, the older building stock in the city centre – typically built around 1900 – is often considerably more difficult to convert into residen-

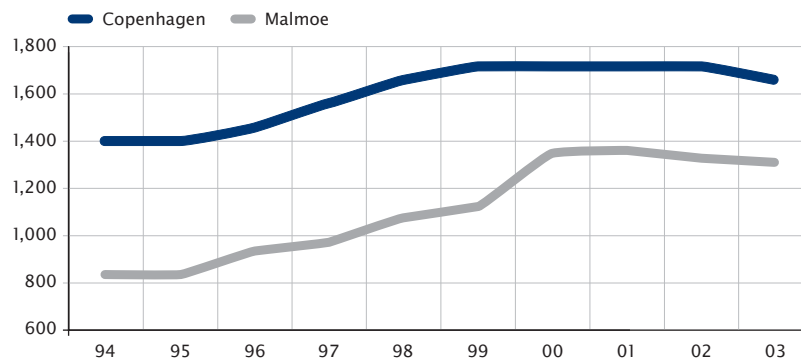
tial use, and we foresee no surge in conversion schemes involving such buildings. These buildings should be considered divided into small-sized office units of less than 1,000 sqm of space in order to attract new occupiers.

Average rent levels, which dropped by some 5 - 8% in 2002, continued on a downward trend in 2003 with an additional average decrease of some 5%. In general, however, rents are anticipated to stabilise in 2004.

Prime rents for new office space on the central harbour front now stand at approx. DKK 1,650 (EUR 223) per sqm p.a. exclusive of operating costs, whereas in the old part of the city centre, prime rents are DKK 1,350 (EUR 182) per sqm and secondary rents DKK 1,000 - 1,100 (EUR 140 - 155) per sqm.

In most suburban markets, up-to-date office space is available for immediate occupancy, in particular in the form of sub-leases with tenants who have reduced their space requirements. In such situations, prospective sub-tenants often find extremely good possibilities

Prime office rent (DKK/sqm/annum), Copenhagen/Malmoe



Market expectations 2004, Copenhagen ☺

Market expectations 2004, Malmoe ☺

Sources: NewSec and Sadolin & Albæk

of securing very attractive terms with rents that in some cases are more than 20% below headline market rents. This especially applies to the areas of Ballerup and Sydhavnen, both dominated by the IT and telecommunications sectors in which lay-offs have been considerable. See below for more on these sectors.

Also in suburban markets, where the current average vacancy rate is about 8.4%, rents are expected to stabilise owing to the decline in new office construction and the increased demand related to the anticipated economic recovery.

The Ørestad development scheme

The office market in Ørestad, the new large development area between the city centre and Copenhagen Airport, has of course been affected by the general downturn in the office market.

Two new office buildings in the Ørestad City area, developed by NCC and Norwegian pension fund KLP Eiendom, are ready for occupan-

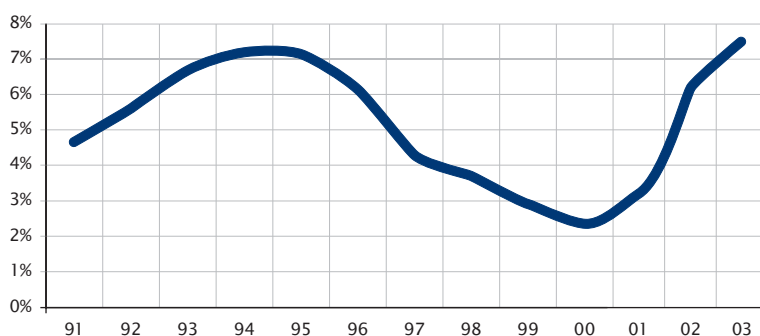
cy. The buildings are currently 50 - 80% let. Although *Copenhagen Energy* in 2003 committed to a new 14,000 sqm office building in Ørestad, to be developed by *SjælsøGruppen* and *Doughty Hanson & Co.*, we assume that office development activity in this area will be modest in the next couple of years,

Other office development opportunities

Other development areas in attractive locations in Greater Copenhagen are:

- *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 & Co.* Taking into consideration the current state of the market, it is expected that the area will primarily be developed as a residential area with multi-family housing.
- *Fisketorvet*, a waterfront site immediately south of the city centre where *Skanska* may develop 100,000 sqm.

Overall office vacancy rate, Copenhagen



Market expectations 2004 

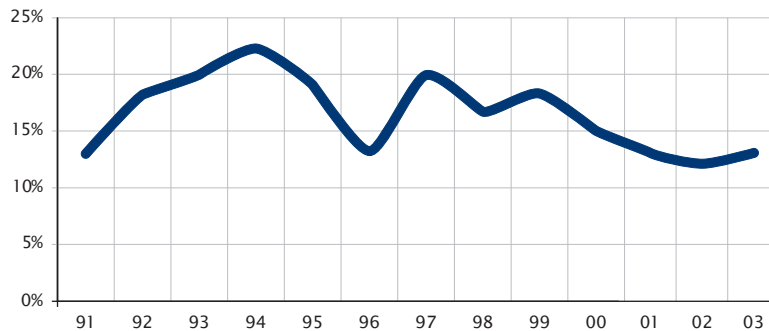
Source: Oline-Lokalebørs Statistics

OFFICE
RETAIL
INDUSTRIAL
MARKET PLAYERS

- 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*. *Australian Medina* in 2003 committed to a new development of serviced flats in this area.
- *Sydhavnen* (the south end of the harbour) where a number of developers offer built-to-suit office projects. Also in this area, residential development activity is currently strong.
- *Scanport*, a 100,000 sqm office development near Copenhagen Airport.
- The *SAAB* factory located in Västra Hamnen will be redeveloped into 35,000 sqm of office space by *Diligentia*.
- The area of *Gyllenstjärna* in central Malmö will be developed into 15,000 sqm of mixed-use office, residential and retail 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.
- *Hjälmarekajen* between the central station and Västra Hamnen to be developed for office purposes by *Skanska*. The total development potential comprises 28,000 sqm.

Similarly, development projects in Malmö are:

Overall office vacancy rate, Malmö



Market expectations 2004

Source: NewSec



THE COPENHAGEN CBD OFFICE MARKET

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MARKET PLAYERS

- CBD office vacancy and rents stabilising
- Increased demand for small-sized office units in the CBD
- Few large office buildings converted into residential use

Over the last couple of years, the vacancy rate in the Copenhagen CBD (Central Business District) has increased from less than 2.0% in 2000 to an estimated 6.6% in early 2004. In particular, a substantial number of large-scale occupiers relocated from old and inefficient CBD office buildings to new and flexible office developments along the harbour front.

It remains to be seen whether or not the current vacancy in the old city centre stock should be considered a cyclical issue or a structural phenomenon. However, in recent months, we have recorded a surge in inquiries for small-sized office units (300 - 1,000 sqm of space). Despite the lack of modern and flexible office buildings with parking facilities, the city centre thus still proves to be an attractive office location for occupiers who seek attractive surroundings with a unique city atmosphere rather than modern office premises in new office locations with less ambience.

Although new office buildings on the CBD harbour front see a certain degree of vacancy, letting activity continues to be strong in this area, and vacancy periods in excess of 12 months are extremely rare. Rents commanded in such buildings have been somewhat under pressure, although prime rents remain fairly stable at DKK 1,650 (EUR 225) per sqm p.a. exclusive of operating costs.

Older buildings in the city centre command substantially lower rents, for very good quality space often less than DKK 1,300 (EUR 175) per sqm p.a., and office space of secondary quality is typically priced around DKK 1,000 - 1,100 (EUR 135 - 150) per sqm p.a. exclusive of operating costs.

Currently, a couple of fairly large office buildings dating from the 1950s are being convert-

ed into residential units, for which demand remains fierce. In 2003, domestic developer *De Forenede Ejendomsselskaber* acquired a 9,000 sqm high-rise building on the waterfront, and developer *Centerplan* acquired a 10,000 sqm office building in a somewhat secondary city location. Both buildings will be converted into residential use.

We do not consider it likely, however, that the vast number of older office buildings in the city centre will all be converted into residential use. Most old properties have complex building structures that make residential conversion an extremely difficult and costly affair if today's requirements in terms of adequate size and good layout are to be met.

It should be mentioned that after more than two years of negotiations, the *University of Copenhagen* rented approx. 30,000 sqm in the former Municipal Hospital of Copenhagen (Kommunehospitalet) on the western edge of the CBD.

The Central Business District may be divided into the following sub-areas:

(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. In the table on page 32, "na" denotes that information is thus "not available".

(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 of older buildings and this area should not be considered a prime office location. Virtually no parking facilities are available in this area.

Although a certain vacancy is recorded in this area, the office market benefits from the fact

that most units are rather small and hence fit the typical requirement for city centre office space, but landlords face increasing investments in upgrading such units to current tenant requirements.

(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. Vacancy in the area remains low, mainly because of the stable presence of government users.

In 2003, property company *Nordicom* acquired a 3,000 sqm office building in Kongens Nytorv, partly for owner-occupation.

(4) Frederiksstad

Located around the Queen's residence, Amalienborg Palace, to the north of the medieval part of Copenhagen, Frederiksstad 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. In 2003, only a couple of rather small new lettings were recorded in the area.

(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.

In 2003, publishing group *Egmont* rented approx. 5,000 sqm of modern office premises, and US advertising agency *TWBA\Copenhagen* took approx. 600 sqm in this area. Vacancy remains relatively low.

(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. Vacancy in the area is currently high.

Recent office lettings include 1,600 sqm to the *City of Copenhagen* and approx. 1,000 sqm to domestic developer *JM Danmark*. Furthermore, the *International Council for the Exploration of the Sea* (ICES) has rented approx. 3,200 sqm on H.C. Andersens Boulevard.

(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 office locations.

The harbour areas are characterised by highly prestigious first-class development schemes that command high rent levels. The whole area has been redeveloped over the past

OFFICE
RETAIL
INDUSTRIAL
MARKET PLAYERS

seven to nine 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.

Letting activity has been rather strong in this area. In *Nordhavnen*, *PensionDanmark* has taken some 2,500 sqm, and a number of minor tenants, including *Amgros*, have also chosen this location. At *Kalvebod Brygge*, lettings in 2003 included 4,000 sqm to *IO*

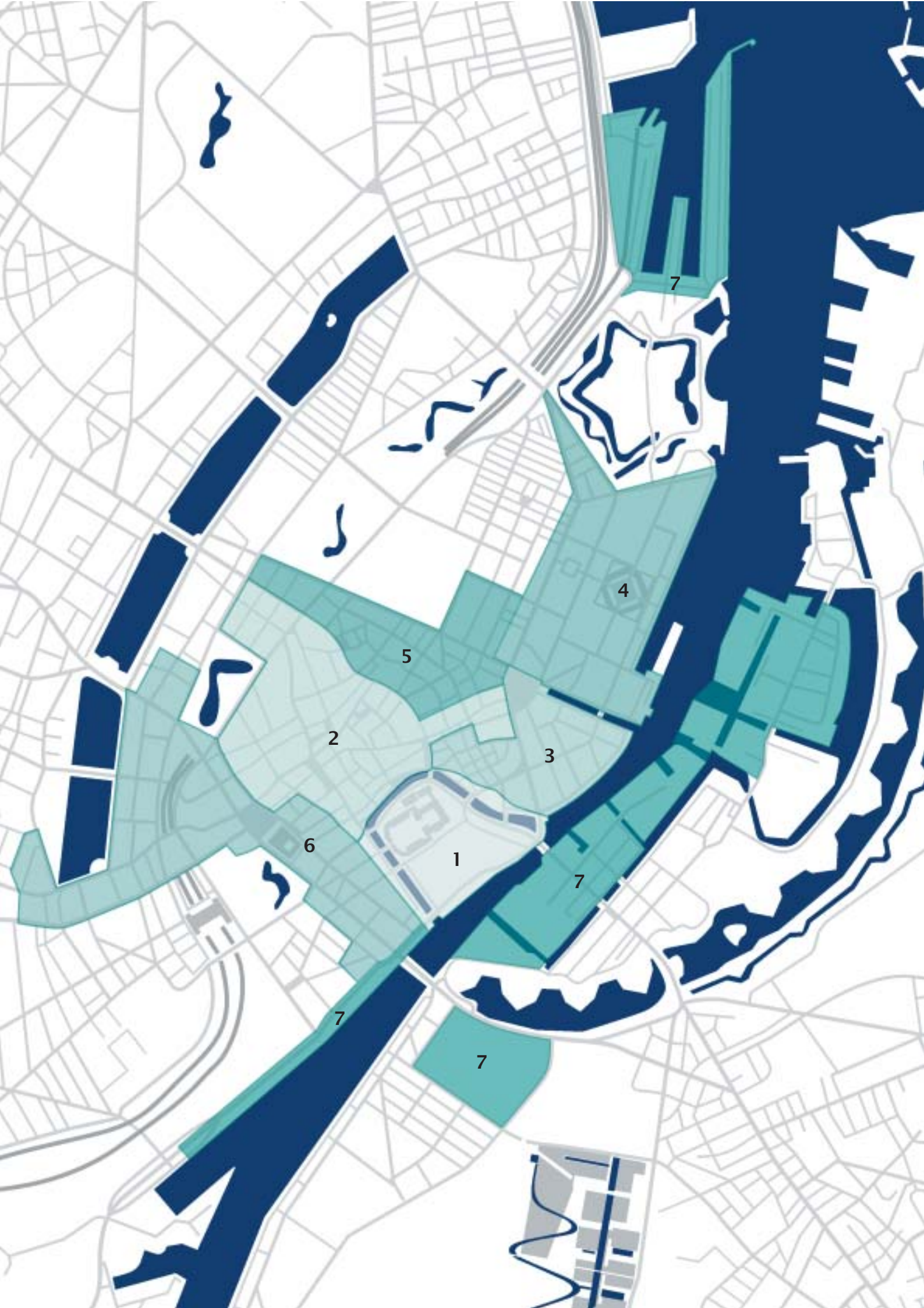
Interactive, 1,600 sqm to US insurance group *AIG*, 1,600 sqm to *Hugo Boss*, and 600 sqm to German *HSH Nordbank*.

Also, it deserves mention that *Deloitte & Touche* recently acquired a development site from Norwegian developer *HARO* at *Ny Tøjhusgrunden*, on the eastern side of the harbour, with the intention to develop a 28,000 sqm modern office building for owner-occupation.

Typical office rent levels, Copenhagen

Prime rent levels	(DKK/sqm/annum)				Change	Market expectations
	2000	2001	2002	2003		
(Exclusive of operating costs)	2000	2001	2002	2003	2002-03	2004
(1) Government District	na	na	na	na	na	na
(2) Pedestrian area	1,200	1,300	1,250	1,200	-4.0%	↔
(3) Banking District	1,500	1,500	1,400	1,350	-3.6%	↔
(4) Frederiksstad	1,500	1,500	1,350	1,300	-3.7%	↔
(5) Rosenborg area	1,450	1,450	1,300	1,300	0.0%	↔
(6) City Hall and Central Station area	1,500	1,500	1,350	1,350	0.0%	↘
(7) Harbour areas	1,700	1,750	1,700	1,650	-2.9%	↔

Secondary rent levels	(DKK/sqm/annum)				Change	Market expectations
	2000	2001	2002	2003		
(Exclusive of operating costs)	2000	2001	2002	2003	2002-03	2004
(1) Government District	na	na	na	na	na	na
(2) Pedestrian area	1,000	1,050	1,000	1,000	0.0%	↔
(3) Banking District	1,250	1,300	1,200	1,150	-4.2%	↔
(4) Frederiksstad	1,250	1,250	1,150	1,100	-4.3%	↘
(5) Rosenborg area	1,100	1,150	1,050	1,050	0.0%	↔
(6) City Hall and Central Station area	1,200	1,200	1,150	1,100	-4.3%	↔
(7) Harbour areas	1,450	1,475	1,350	1,350	0.0%	↘



THE GREATER COPENHAGEN AND MALMOE OFFICE AREAS

OFFICE RETAIL INDUSTRIAL MARKET PLAYERS

- *Low letting activity and virtually no new development activity in most suburban areas*
- *Headline rents have declined by 5 - 10%, and tenant incentives have become common*
- *Many occupiers are renegotiating leases at lower rents or considering whether to secure new space at competitive terms.*

Vacancy rates in suburban areas have increased substantially and currently stand at an estimated 8.4%. As opposed to the CBD market, where the increase in vacancy is a result of relocations by large occupiers, the surge in suburban vacancy rates is rather a consequence of the general economic downturn in recent years, in particular affecting the IT and telecommunications sectors.

Hence, the highest vacancy rates are recorded in areas traditionally dominated by these sectors, including *Ballerup/Herlev, Sydhavnen, and Birkerød/Allerød*. Especially in Ballerup/Herlev and certain areas of Birkerød/Allerød the vacancy may become more of a structural problem as occupiers increasingly prefer state-of-the-art space in new development areas, such as certain harbour areas and Ørestad.

Obviously, new office development in most suburban areas has come more or less to a full stop. Speculative development has been restricted, even during good times, and the current building stock has enough available space to satisfy most requirements. On the other hand, in the attractive harbour front locations to the north of the city, including *Kalkbrænderihavnen* and *Tuborg Havn*, it is reasonable to assume that new developments may take off again within two or three years.

In general, suburban rents declined by 5 - 10% in 2003, but in the above-mentioned areas rent levels are hit even harder by the fact that good office space is offered for sub-letting

with extremely aggressive pricing by tenants who have already vacated space and are trying to avoid or limit further losses.

On the other hand, in sub-markets north of the city centre, close to the attractive northern residential areas, the occupier market remains more stable with rents only falling by some 5%.

Tenants are of course trying to take advantage of current market conditions, and in many cases landlords are prepared to renegotiate leases and accept lower rents if the tenant is prepared to accept a longer lease term. Furthermore, quite a number of significant occupiers are currently contemplating leasing new space at rents that are considered very competitive.

Prime rents in suburban harbour areas north of the city centre remain at the same level as prime rents in the central harbour area, i.e. around DKK 1,650 (EUR 225) per sqm p.a. However, in more secondary suburban locations, modern office space commands rents of around DKK 1,000 (EUR 135) per sqm p.a., and office space of more secondary quality is available at rents down to DKK 700 - 750 (EUR 95 - 100) per sqm p.a. exclusive of operating costs.

Similarly to decentralised Copenhagen office areas, Malmoe office vacancy rates are a result of a sluggish occupier market. However, at 13%, vacancy rates are in fact historically low for Malmoe, as the city experienced rates of some 20% in the early 1990s.

(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.

Whereas development activity in this area was very strong in 2000 - 2002, no new developments are currently in the pipeline.

In 2003, *GE Frankona RE* took a lease of approx. 2,300 sqm in the new corporate headquarters of pension fund AP Pension. Generally speaking, however, only minor lettings were recorded in the area, including 1,000 sqm for pension fund *PFA*.

(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 with limited appeal to the office market.

(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 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.

In Hellerup, property company *DADES* recently let more than 8,000 sqm of good office space to a number of minor tenants, including e.g. *Chubb Insurance Company of Europe* (about 1,800 sqm), state-owned financial company *VækstFonden* (about 1,600 sqm), *Lloyds Register of Shipping* (about 1,600 sqm) and *Welcome Fitness* (about 1,400 sqm).

(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.

In 2003, property company *DADES* acquired a 10,000 sqm office building in Lyngby, which formerly served as the head office of insurance company *Alm. Brand*. *DADES* intends to use approx. 70% of the building for owner-occupation. Furthermore, the *National Commission of the Danish Police* extended their present lease in Gladsaxe to comprise approx. 15,000 sqm in total.

(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. Although letting activity in 2003 was extremely limited in

this area, a research park area in Hørsholm continues to attract new occupiers, in particular from the biotech sector.

(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 extremely weak.

In 2003, property developer *SjælsøGruppen* took approx. 4,500 sqm in Allerød for owner-occupation.

(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 weakened substantially over the last two years, and a certain structural vacancy in more secondary stock may well occur.

On the other hand, some occupiers are taking advantage of the quite depressed market by securing long leases at competitive rents in modern buildings. Such occupiers include a local *Tax Authority*, who has taken approx. 3,000 sqm.

(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 approx. 4,500 sqm in a new building to *Danske Bank* and approx. 2,500 sqm to the *Municipality of Glostrup*.

(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.

(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. The area is considered one of Copenhagen's most important suburban office development areas, but the market is currently depressed, following substantial downsizing by a number of IT and telecommunications companies.

Nevertheless, it is important to note that several rather large corporations are considering whether to take advantage of current market conditions by securing long leases at extremely competitive rents in this location, which will become increasingly more attractive in the long run as a result.

(12) Amager/Havnestad/Ørestad

The island of Amager is gradually turning into an attractive suburban office location. The area 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. Still, office development opportunities in the area are substantial.

The Central Ørestad area itself has a development potential of some 600,000 sqm. Norwegian pension giant *KLP Eiendom* recently developed a 30,000 sqm office scheme on speculation. In this scheme, 3,000 sqm of space was let by the *Ørestad Development Corporation*, another 3,000 sqm by third-generation mobile phone operator "3", and an additional 5,500 sqm by *Atkins Danmark*.

Also, in 2003 *Copenhagen Energy* committed to pre-lease a 14,000 sqm built-to-suit office development in Ørestad.

(13) Malmö city centre

The property stock in Malmö 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 Malmö city centre.

In 2003, *Skandia* leased 1,300 sqm of office space in the city centre in a property newly developed by *Skanska*. The rent level was approx. SEK 2,000 (EUR 270) per sqm p.a. exclusive of operating costs.

(14) Malmö Västra Hamnen (western harbour)

Originally Västra Hamnen was one of Malmö'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 Malmö'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*. The *University of Malmö* 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 Malmö with the most modern office stock.

State-owned company *Telia* plans to place all their Malmö staff in one single location, i.e. a new 14,000 sqm office building currently under construction and scheduled for completion in spring 2004. Furthermore, the so-called *Turning Torso*-project is currently under development and is planned to comprise 15,000 sqm of residential space and 3,800 sqm of office space. With a height of 190 metres the *Turning Torso* will become a landmark building in Malmö. The project is scheduled for completion in autumn 2005.

(15) Malmö 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.

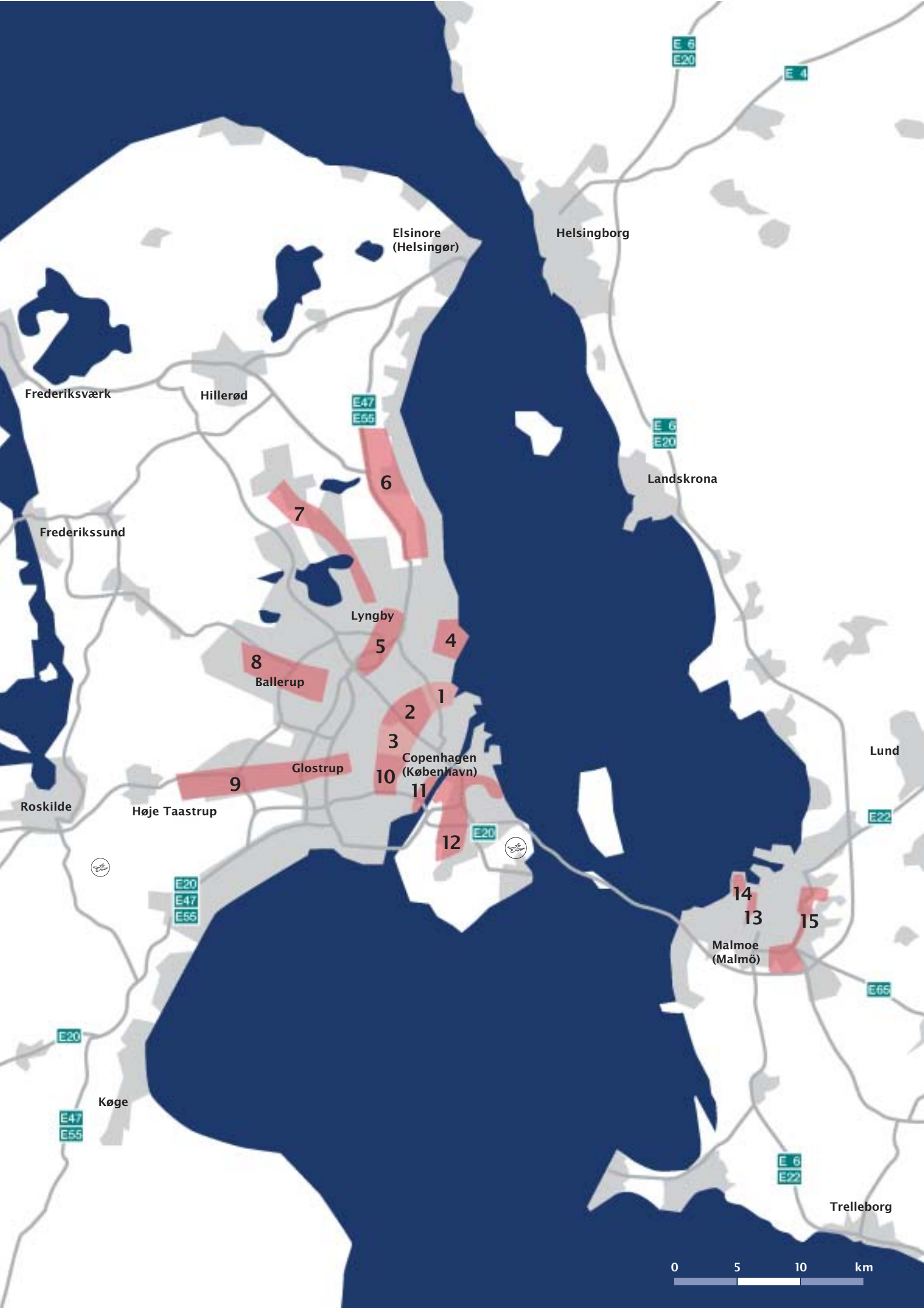
In 2003, *Howmedica Osteonics*, who manufacture orthopedic devices, leased 3,100 sqm of office space in the so-called *Sydsvenskanhuset* by the *Sege* roundabout. The rent level was around SEK 1,035 (EUR 145) per sqm p.a. exclusive of operating costs.

Also in 2003, *Orifarm* leased approx. 500 sqm near the northern approach roads to Malmö at a rent level of around SEK 1,250 (EUR 160).

Typical office rent levels, Copenhagen and Malmoe

Prime rent levels	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	2000	2001	2002	2003	2002-03	2004
(1) Østerbro	1,600	1,600	1,650	1,600	-3.0%	↔
(2) Nørrebro	1,050	1,100	1,050	1,000	-4.8%	↘
(3) Frederiksberg	1,050	1,100	1,100	1,100	0.0%	↔
(4) Hellerup	1,500	1,550	1,550	1,550	0.0%	↔
(5) Lyngby/Gladsaxe	1,250	1,300	1,250	1,200	-4.0%	↔
(6) The north corridor	1,100	1,100	1,000	1,000	0.0%	↔
(7) Birkerød/Allerød	1,050	1,150	1,100	1,050	-4.5%	↘
(8) Herlev/Ballerup	1,100	1,150	1,100	1,050	-4.5%	↘
(9) The west corridor	1,050	1,100	1,000	1,000	0.0%	↔
(10) Valby	850	850	950	950	0.0%	↔
(11) Sydhavnen	1,300	1,400	1,400	1,300	-7.1%	↘
(12) Amager/Havnestad/Ørestad	na	1,400	1,400	1,250	-10.7%	↘
	(SEK/sqm/annum)					
(13) Malmoe city centre	1,600	1,800	1,750	1,700	-2.9%	↔
(14) Malmoe Västra Hamnen	1,300	1,400	1,500	1,500	0.0%	↔
(15) Malmoe inner ring road	950	1,000	1,000	1,000	0.0%	↔

Secondary rent levels	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	2000	2001	2002	2003	2002-03	2004
(1) Østerbro	1,100	1,150	1,100	1,050	-4.5%	↔
(2) Nørrebro	750	775	750	750	0.0%	↘
(3) Frederiksberg	750	775	750	775	3.3%	↔
(4) Hellerup	1,150	1,150	1,100	1,100	0.0%	↔
(5) Lyngby/Gladsaxe	975	975	950	950	0.0%	↔
(6) The north corridor	850	900	850	800	-5.9%	↔
(7) Birkerød/Allerød	850	875	850	800	-5.9%	↔
(8) Herlev/Ballerup	800	825	800	775	-3.1%	↘
(9) The west corridor	775	800	775	750	-3.2%	↔
(10) Valby	700	725	725	725	0.0%	↔
(11) Sydhavnen	1,200	1,200	1,200	1,100	-8.3%	↘
(12) Amager/Havnestad/Ørestad	1,050	1,050	1,000	950	-5.0%	↘
	(SEK/sqm/annum)					
(13) Malmoe city centre	1,350	1,400	1,250	1,200	-4.0%	↔
(14) Malmoe Västra Hamnen	1,100	1,200	1,100	1,100	0.0%	↔
(15) Malmoe inner ring road	850	950	850	850	0.0%	↔



Elsinore (Helsingør)

Helsingborg

Frederiksværk

Hillerød

E47
E55

E 6
E 20

E 4

Landskrona

Frederikssund

7

6

Lyngby

5

4

8

Ballerup

2

3

Copenhagen (København)

10

11

9

Glostrup

12

E 20

Lund

E 22

Roskilde

Høje Taastrup

E 20
E 47
E 55

14

13

15

Malmoe (Malmö)

E 65

E 20

Køge

E 47
E 55

E 6
E 22

Trelleborg

0 5 10 km



THE OFFICE PROPERTY INVESTMENT MARKET

- Demand for prime office property, let on long leases, remains strong from domestic institutions and German open-ended funds, but is frustrated by a lack of available investment opportunities, including new pre-let developments
- Prime yield requirements for property with 10-year leases have increased moderately to 6.5%, but yields have hardened for property let on longer leases (15+ years)
- Private investors are increasingly active in the suburban and secondary office investment market, and secondary yields have stabilised, prompted by low interest rates and reflecting an anticipated recovery of occupational demand
- Developers look for vacant office buildings that may be converted into residential use

Increasing office vacancy and fairly weak occupational demand has caused new office construction activity to drop dramatically, and only a very limited number of pre-let projects have come to the market. Investor demand from both domestic institutions and German open-ended funds, favouring modern office buildings, let on leases with minimum terms of 8 - 10 years, is thus frustrated by a lack of investment opportunities.

Although an estimated DKK 15 - 20bn (EUR 2 - 3bn) of institutional and international funds have been allocated to the prime office investment market, investors are reluctant to

compete aggressively for such products, and prime office yields in general have increased by about 25 bp to approx. 6.5%, reflecting a yield gap to 10-year government bonds of around 200 bp. Nonetheless, low interest rates and the institutional appetite for secured long-term cash flows have pushed down yields on properties let on 15+-year leases.

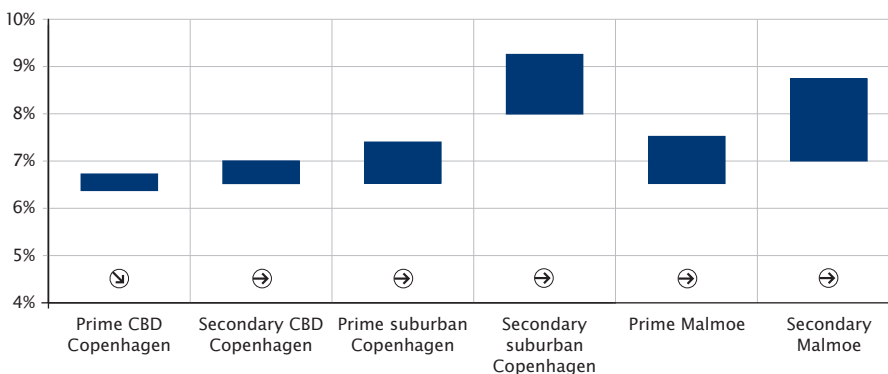
Despite a relatively high vacancy rate, secondary office and mixed-use property in CBD locations is in strong demand from both property companies and private investors. As opposed to institutions, such investors are prepared to acquire office property with short leases, enabling them to take advantage of an anticipated recovery of occupational demand and stabilising secondary rents. As a result, activity in the secondary CBD office investment market has in recent months been substantially stronger than in the prime market.

Secondary CBD office property in today's market trades at net initial yields of 6.5 - 7.0%, whereas mixed-use property with a residential and retail element often trades at substantially lower yields.

In certain suburban locations, including Ballerup and Birkerød, the secondary office investment market is considerably weaker. Investors fear that in such areas, typically developed in the 1970s and early 1980s, vacancy may become a structural problem, aggravated by substantial competition from

OFFICE
RETAIL
INDUSTRIAL
MARKET PLAYERS

Net initial yields, office, Copenhagen and Malmoe



Source: Sadolin & Albæk

more up-to-date office development areas in the harbour areas and Ørestad.

Vacant office property in the city centre trades at a significant discount to fully let buildings, and in particular functionally obsolete office property that may be converted into residential use is being demanded by developers and other speculative investors, often backed by opportunistic international investors.

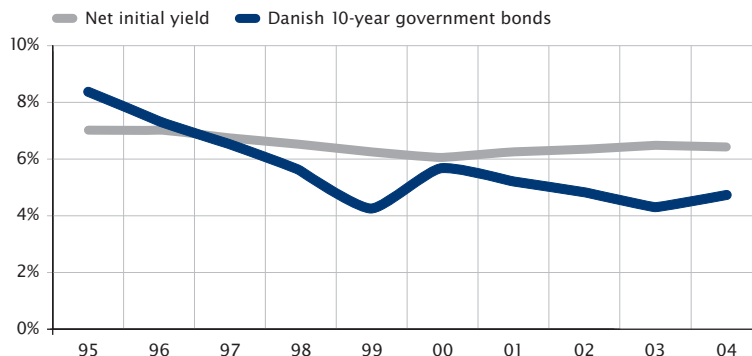
Recent notable transactions in Greater Copenhagen include:

- Property company *Jeudan* continued its expansion in the city centre market and acquired two portfolios from *EjendomsSelskabet Norden* at a total value of DKK 1.5bn (EUR 200m) and an estimated average net initial yield of 6.5%.
- *Nordea* acquired a portfolio of office and mixed-use buildings, most of them situated in Copenhagen, from the *Tryg Vesta Group*. The transaction was worth DKK 1.2bn (EUR 162m).
- Property company *Keops* acquired a portfolio of five mainly secondary office properties in a sale and leaseback (10 - 15 years) transaction with *Scandinavian Airlines Systems (SAS)*. The net initial yield on this DKK 800m (EUR 107m), 87,000 sqm transaction was approx. 7.75%, reflecting the secondary

nature of the properties and their locations, but also the somewhat critical financial situation of the tenant.

- *Deloitte & Touche* acquired a 28,000 sqm development project at Ny Tøjhusgrunden for owner-occupation. The vendor was Norwegian developer *HARO*.
- A privately owned property company *ATLAS Ejendomme* acquired from *Skanska* a 19,000 sqm landmark building in the city centre, let to the Danish Government on short leases, at a price of DKK 260m (EUR 35m), reflecting a net initial yield of approx. 6.7%.
- In one of few investment transactions involving pre-let office developments in 2003, *PFA Pension Fund* acquired a 12,000 sqm development project in Ørestad from *SjælsøGruppen*. The project was pre-let to *Copenhagen Energy* on a 10-year lease, and the net initial yield is estimated at 6.5%.
- Private investor *Friheden Invest* acquired two office properties in good suburban locations, let on long leases to strong tenants, at a net initial yield of approx. 7.0%. The investment volume was approx. DKK 175m (EUR 24m).
- Property company *St. Frederikslund Group* acquired a 10,000 sqm mixed-use property in the city centre at a net initial yield of 6.5%.

Yield spread, Copenhagen



Source: Sadolin & Albæk

- Also in the city centre, a limited partnership (a so-called “kommanditselskab”, abbreviated K/S) acquired a 3,000 sqm mixed-use building. The price reflected a net initial yield of 6.1%.

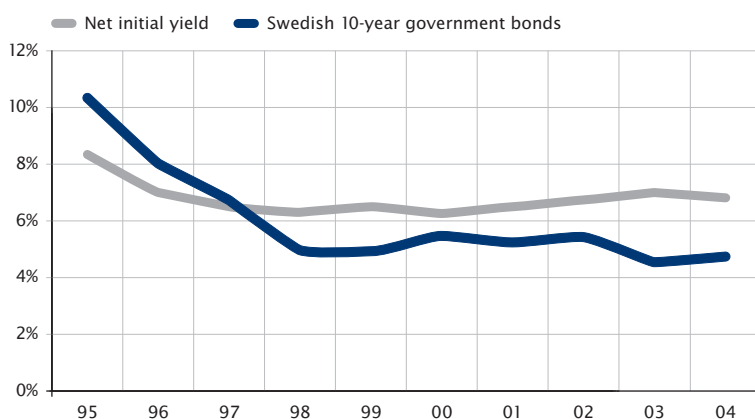
Furthermore, a number of transactions involving untenanted buildings should be highlighted:

- Developer *SjælsøGruppen* acquired from *Copenhagen Energy* a 16,000 sqm vacant landmark office building in the CBD for approx. DKK 200m (EUR 27m).
- Property company *De Forenede Ejendomselskaber* acquired from *Scandic Hilton* a 9,600 sqm high-rise building in a central waterfront location. The investment was approx. DKK 120m (EUR 16m), and the property will be converted into residential use.
- Developer *Centerplan* acquired a 15,000 sqm vacant office building in a relatively secondary city location at a price of DKK 140m (EUR 19m), with the intention of converting the building for residential purposes.
- Listed property company *Nordicom* acquired a 3,000 sqm prestigious CBD office building at a price of DKK 65m (EUR 9m). The property will be partly used for owner-occupation.
- Property company *DADES* acquired from insurance company *Alm. Brand* a 10,000 sqm office building in Lyngby for owner-occupation.

Recent notable transactions in Malmoe include:

- Swedish property company *Drott* sold a portfolio of 45 properties to *Kungsleden*. The portfolio included 35 Malmoe properties, and through this transaction Drott divested its entire commercial property holdings in Malmoe. The Malmoe properties were sold at a total transaction sum of approx. SEK 1.6bn (EUR 175m), reflecting a yield of approx. 7.25%.
- *Skanska* sold a 3,600 sqm office building in Gamla Stan to a private investor. The transaction sum was SEK 63m (EUR 7m).
- Pension fund *AMF Pension* sold a 10,300 sqm multi-let office property in the city centre to property company *Briggen*. The transaction sum was SEK 185m (EUR 21m). *ProOffice* and *FöreningsSparbanken* are among the tenants. The yield is estimated at 6.75%.
- US investment bank *Blackstone Group* acquired a 8,000 sqm office building from *Skanska* at the price of SEK 149m (EUR 16m). The property was sold considerably below market value as it was part of a major portfolio with the total market value of SEK 2.1 bn (EUR 227m).

Yield spread, Malmoe



Sources: Danske Bank and Newsec

THE RETAIL PROPERTY MARKET

OFFICE RETAIL INDUSTRIAL MARKET PLAYERS

- *High level of letting activity in the Copenhagen high street market*
- *International retailers still showing strong interest for prime high street units*
- *The new tenancy act has not caused market rents to rise, but rents on leases let according to older tenancy agreements have increased*

In both Denmark and Sweden, private consumption has continued to show positive trends. Danish private consumption is expected to increase moderately in 2004, primarily due to the introduction of interest-only home mortgages, which will enable private households to improve their liquidity. In addition, the so-called "tax stop" promised by the Danish centre-right government is also believed to enhance the purchasing power of private households and thus private consumption.

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 2003, *Stadium* and the third-generation mobile phone company "3" opened flagship stores in this area. *Marlboro Classic*, *Gant* and *Red & Green* all relocated to larger shops and better locations. *Ivan Grundahl* and *House of Amber* both opened a second shop in prime locations, and *Imitz* and *Dressmann* opened flagship stores also in prime locations. Other newcomers to the high street retail market are *Ballade by Charlotte Sparre*, *Lorenzo*, *Blaylife*, a new fashion shop, aimed at younger age groups, which leased the former *Marlboro* shop, *EB Games*, which opened a shop for computer games and *GAD*, which opened a discount bookshop.

The trend of local retailers being replaced by international and national retail chains continues. Typically, the more specialised local retailers locate in the Copenhagen Latin Quarter and Grønnegade area around the high street area. As far as high street property owners are

concerned, this signals a positive development: Retail chains are able to pay higher rents than local retailers. On the other hand, landlords in the Latin Quarter and Grønnegade area also stand to gain as local retailers are able to pay higher rents than the typical "alternative" tenants formerly dominating the area. At the same time, the local retailers have helped upgrade this area, making it more attractive.

Although demand is substantial, two or three shops in "Strøget" may become available as present tenants are prepared to relocate. Also, redevelopments involving the *Illums* department store and the shopping arcade of *Cityarkaden* will create new lease opportunities in "Strøget". This may well put Copenhagen high street prime rents under pressure.

The new Danish tenancy act, effective as from 1 April 2003, has resulted in an increase in the average rents for high street units. The new act opened up for landlords calling for rent increases to market level on leases let according to older tenancy agreements. This is also one of the main drivers of the considerable letting activity. Tenants that were not prepared to accept this rent increase terminated their leases, which were subsequently re-let, typically to retail chains.

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. Scheduled to open in spring 2004, *Field's* is being developed by a consortium of domestic player *TK Development* and Norwegian company *Steen & Strøm*, and 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 the 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. New international retailers are *Dressmann* and *Stadium*.

Retail chains dominate the high street area, accounting for approx. 60% 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. However, this has to some extent changed during 2003, due to the new tenancy act coming 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 approx. 80% of the shops in this area, as opposed to e.g. about 40% 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.

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", namely in the City Hall/Central Station area and in Nyhavn.

(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 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 is home to *Frederiksberg Centret*, one of the most important local shopping centres, comprising approx. 18,000 sqm of retail space.

Shopping centres also deserving mention are *Amager Centret* at Amagerbro comprising approx. 20,000 sqm of retail space, and *Nørrebro Bycenter* at Nørrebro comprising approx. 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.

(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 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 facili-

ties, 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 approx. 26,500 sqm and 62,000 sqm, which means that the average rented space is around 40,000 sqm. In 2002, the average turnover per square metre was approx. DKK 38,500.

Local centres or local shopping areas do not compete very much with regional centres. Rather, the two 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 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 predominantly occupied 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 from approx. 4,300 sqm and 20,000 sqm, the rented space averaging approx. 10,000 sqm. In 2002, the average turnover per square metre was approx. DKK 35,500.

(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. Generally the best retail locations are in the stretch from *Stortorget* via *Södergatan* past *S. Förstadskanalen* to *Södra Förstadsgatan*.

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 city trade in Malmoe generated an aggregate turnover of approx. SEK 1.8bn in 2002, a 7.0% increase over 2001. In spite of the economic slump in Sweden retail trade is performing well and is attracting interest from many new retailers. Malmoe is particularly interesting as rent levels are comparatively low and the close proximity to Copenhagen and the *Øresund Bridge* has a spill-over effect on retail trade.

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

New retailers in 2003 near the high street locations are *Rhode* and *Baltazar*, both on *Skomakaregatan*.

(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*, approx. 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. The shopping centre *Nova* opened in 2002 on the northern outskirts of Lund. It mostly comprises clothing shops as well as a few electronics shops and similar outlets. Further north, just outside *Helsingborg* (approx. 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*, *Hansacompagniet* and *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 *Jägersro* where major shops like *Jysk Bäddlager*, *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 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.

Typical retail rent levels, Copenhagen and Malmoe

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

(Exclusive of operating costs)		(SEK/sqm/annum)		Market expectations 2004
		2002	2003	
(8) Malmoe City High Street	Malmoe City High Street	2,250- 5,250	2,250- 5,250	↔
	Malmoe City secondary location	1,200- 2,200	1,200- 2,200	↔
(9) Regional shopping centres	Regional shopping centres	1,800- 2,500	1,800- 2,500	↔
	Local shopping centres	1,300- 3,000	1,300- 3,000	↔



Østerbro

Nørrebro
Bycenter

Nørrebro

3

Copenhagen
city

Frederiksberg

3

Frederiksberg
Centret

2

1

Fisketorvet
shopping centre

3

Vesterbro

Amager
Centret

3

Amagerbro

Ørestad

Field's
shopping centre



THE RETAIL PROPERTY INVESTMENT MARKET

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- *International investors invested DKK 3.1bn in 2003*
- *High street investments up to DKK 150m still dominated by tax-driven limited partnerships*
- *High street prime yields ranging from 5.5% to 6.0%*
- *Yields remain more or less unchanged*

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 419m). German *CGI* acquired a 50% share of the shopping centre development *Field's*. This investment is deemed to be relatively long-term. The more opportunistic investment deals were made by *Merrill Lynch* when acquiring the *Illums* department store, and by another US investor

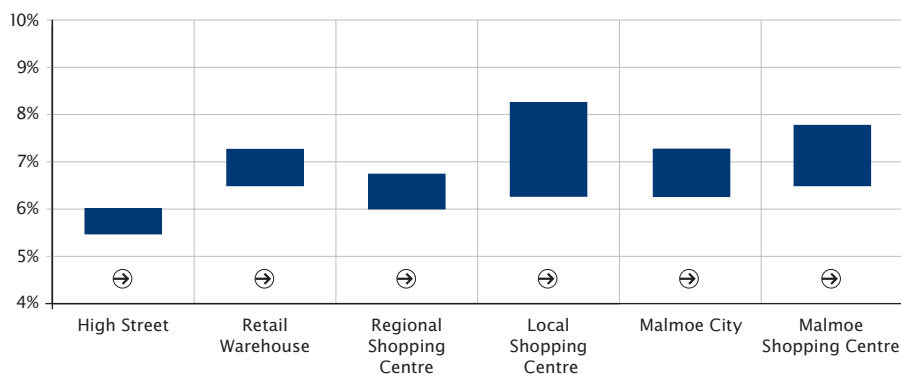
when acquiring *Cityarkaden*. Both properties are to be redeveloped, and both are located in prime high street locations.

The demand from international investors is expected to continue thanks to a healthy retail property market that also offers good redevelopment opportunities.

The high street market continues to record a substantial level of investments dominated by tax-driven limited partnerships and private investors. The tax-driven limited partnerships typically invest in a volume of up to DKK 150m (EUR 20m), at net initial yields of 5.5 - 6.0%. The partnerships generally operate 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

Net initial yields, retail, Copenhagen and Malmoe



Source: Sadolin & Albæk

less pushed out of these markets, even in the market for property with an investment volume in excess of DKK 150m (EUR 20m).

Prime yields have remained unchanged, except for the Copenhagen high street market, where prime yields continue on a downward trend due to the demand from tax-driven limited partnerships and private investors.

Recent notable transactions in Greater Copenhagen include:

- *CGI* acquired 50% of the shopping centre development *Field's* in Ørestad at a price of DKK 1.5bn (EUR 202m). However, the price is linked to the centre's performance in year three, reflecting an estimated yield of 7.0%
- *Magasin* sold the *Illums* department store, to a company owned 80% by *Merrill Lynch* and 20% by *Magasin* themselves. The trans-

action volume was DKK 1.1bn (EUR 149m), reflecting an estimated yield of 7.0%.

- Several high street properties, including *Østergade 16* (multi-let), *Østergade 61* (anchor tenant *Café Norden*), *Bremerholm 2* (multi-let), *Kongens Nytorv 15 - 17*, *Nygade 5* (multi-let), *Frederiksberggade 11* (anchor tenant *BR Legetøj*), *Købmagergade 39* (let to *Hallgreen Sko*) and *Købmagergade 47* (multi-let), were sold to tax-driven limited partnerships and private investors at net initial yields ranging from 5.5% to 6.0%.

Recent notable transactions in Malmoe include:

- Swedish property company *Wihlborgs* sold a mixed-use residential and retail property, comprising an area of 4,900 sqm.

THE INDUSTRIAL PROPERTY MARKET

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MARKET PLAYERS

- Increased vacancy, in particular in secondary property in established industrial areas to the west of Copenhagen
- Prime rents remain rather stable despite weak occupational demand
- Secondary rents and property values under substantial pressure with an increasing stock of functionally obsolete properties

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

The overall vacancy in the industrial market has almost doubled within the last 24 months and now stands at around 4.2%. Although this figure may seem quite low, an increasing part of the existing stock of industrial property is becoming functionally obsolete. This is especially the case in the established industrial areas west of Copenhagen, where it is becoming increasingly difficult to attract new occupiers to large industrial estates dating back to the 1950s and 1960s.

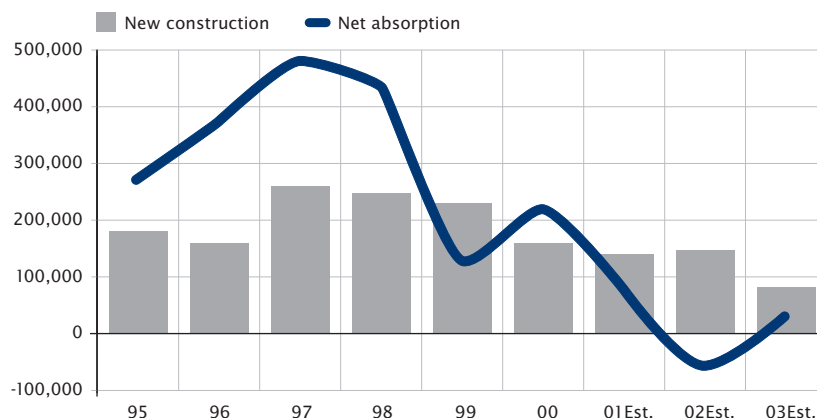
On the other hand, light industrial space in multi-let industrial property, targeting occupiers with less demanding space requirements who accept buildings that offer only ceiling heights below 10 meters and no loading docks, is still in rather good demand.

Despite the relatively modest number of new state-of-the-art distribution facilities, development activity in the industrial sector has slowed considerably. However, with an increased focus on quality and efficiency in logistics buildings, a certain increase in development activity at good motorway locations should be anticipated over the next years.

The expansion of the biotech industry, which is an extremely important sector in the industrial high-tech market, has over the last couple of years suffered from a lack of venture capital. Nonetheless, the pharmaceutical and biotech sectors account for a substantial part of the take-up of high-standard production space.

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

Net absorption and completed construction (sqm industrial space), Copenhagen



Sources: The Danish Centre for Forest, Landscape and Planning under the Ministry of the Environment, and Sadolin & Albæk

Some of the preferred locations are listed in the following. 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, med-tech 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. On the other hand, the biotech sector continues to expand, although the decision by *Biogen* to postpone its planned 40,000 sqm facility in Hillerød has cooled off the market sentiment.

Recent transactions include the acquisition by *Bavarian Nordic* of a 9,000 sqm production plant in North Zealand. The total investment is estimated at DKK 250m (EUR 34m).

(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 area is experiencing rising vacancy rates and rents under continued pressure.

(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.

Recent transactions include the acquisition by *LMG Stål* of a 60,000 sqm development site at Scandinavian Transport Center in Køge.

(5) Malmoe Östra Hamnen (east harbour)

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

Servera, a wholesaler to the restaurant and institutional catering industry, leased approx. 350 sqm in this area in 2003. The rent level was around SEK 800 (EUR 110) per sqm p.a.

(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.

(7) Malmoe, Fosie

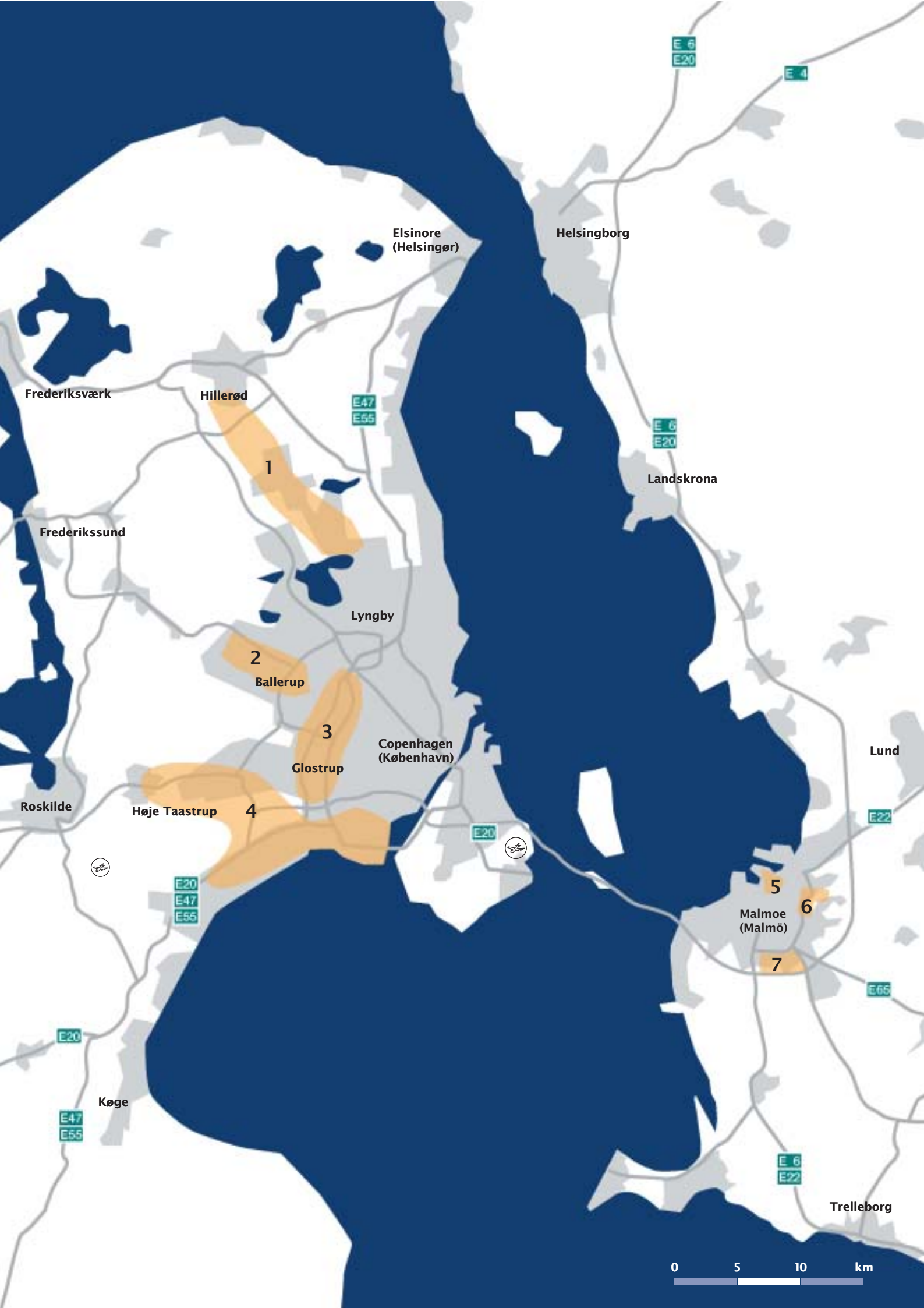
A large number of well-known companies are located along Agnesfridsvägen, the central road in the area. Most of the building stock was developed in the 1970s and 1980s. In spite of low vacancy rates in the existing stock, there are building sites available in Fosie.

Swedish *ASM International* leased 1,600 sqm in this area in 2003 at a rent level of around SEK 400 (EUR 55).

Typical industrial rent levels, Copenhagen and Malmoe

Prime rent levels	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	2000	2001	2002	2003	2002-03	2004
(1) Birkerød/Allerød/Hillerød	525	525	525	500	-4.7%	↔
(2) Ballerup/Måløv	525	525	525	500	-4.7%	↘
(3) Brøndby/Glostrup/Herlev	525	525	525	475	-9.5%	↘
(4) The south corridor	550	550	550	525	-4.5%	↔
	(SEK/sqm/annum)					
(5) Östra Hamnen	500	500	500	500	0.0%	↔
(6) Bulltofta/Valdemarsro	850	850	850	850	0.0%	↔
(7) Fosie	650	650	650	650	0.0%	↔

Secondary rent levels	(DKK/sqm/annum)				Change	Market expectations
(Exclusive of operating costs)	2000	2001	2002	2003	2002-03	2004
(1) Birkerød/Allerød/Hillerød	400	400	375	375	0.0%	↔
(2) Ballerup/Måløv	425	400	400	350	-12.5%	↔
(3) Brøndby/Glostrup/Herlev	425	400	375	350	-6.6%	↘
(4) The south corridor	400	400	400	375	-6.2%	↔
	(SEK/sqm/annum)					
(5) Östra Hamnen	300	300	300	300	0.0%	↔
(6) Bulltofta/Valdemarsro	500	500	500	500	0.0%	↔
(7) Fosie	350	350	350	350	0.0%	↔





THE INDUSTRIAL PROPERTY INVESTMENT MARKET

- *Low investment turnover in the industrial sector*
- *Net initial yields for prime warehouse and industrial buildings, let on 10-year leases, remain stable at around 7.5%*
- *Portfolios of well-let industrial properties are increasingly in demand from private investors and international property funds*

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. On the other hand, an increasing number of private investors and international funds are interested in well-let portfolios of light industrial properties with a good tenant mix, which should ensure a solid cash flow.

Recent notable transactions in Greater Copenhagen include:

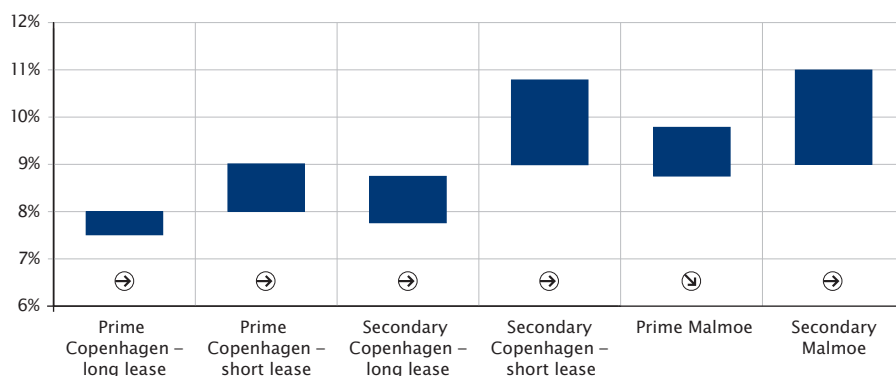
- A US investor acquired a leasehold property, let on long leases to three tenants of prime covenant, in Copenhagen Airport. The transaction sum was DKK 275m (EUR 37m), reflecting an estimated net initial yield of 9.25%.
- A limited partnership acquired an industrial property in Glostrup, let on a 10-year lease to *Royal Scandinavia*. The net initial yield was approx. 8% and the investment volume DKK 110m (EUR 15m).
- A private investor acquired a property near Copenhagen Airport, let on a short lease to a subsidiary of *DHL*, at an estimated net initial yield of approx. 10.75%.

Recent notable transactions in Malmoe include:

- *Variant Fastighets AB* acquired an industrial property at the price of SEK 50m (EUR 6m). The property comprises 15,600 sqm and is let to *Primo* and *Ahlqvist & Co.*
- Two industrial multi-let complexes of 10,000 sqm each were sold by Swedish property company *Drott* to property company *Hammaran 15*. The total transaction sum was SEK 43m (EUR 5m).

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Net initial yields, industrial/warehouse, Copenhagen and Malmoe



Source: Sadolin & Albæk

MARKET PLAYERS

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- *Institutional investors increasingly adopting a proactive approach to property investments*
- *Tax laws favour institutional investment in direct property holdings*
- *Property companies focus on development potential in property acquisitions*

As 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.

This is because *domestic institutions* are subject to a tax rate of 15% on all income and capital gains, whereas a general corporate tax rate of 30% 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, such 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.

Pension funds and life insurance companies

Institutional investors are currently reviewing their investment strategies in the wake of the stock market crash in 2001. Recent years' stock market returns have forced pension funds to adopt a more proactive approach to property investments in order to meet the return requirements demanded by pension savers and without increasing the overall risk exposure in their portfolios. Consequently, pension funds are today more active in the property investment market than seen in recent years.

Danica (part of *Danske Bank*) is the largest institutional investor, with a property portfolio worth more than DKK 15bn (EUR 2bn). *Nordea Ejendomsinvestering* holds a domestic proper-

ty portfolio of approx. DKK 13bn (EUR 1.8bn). ATP and PFA are also significant institutional investors, holding property portfolios in excess of DKK 9bn and 11bn (EUR 1.2bn and 1.5bn), respectively. 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. Almost 80% of ATP's property portfolio is office property. Similarly, office property is a significant component of PFA's portfolio, although PFA unlike ATP also holds a relatively high share of residential properties.

These portfolio compositions have traditionally been very stable. However, consistent with ongoing revisions of the existing portfolios these investors are actively pursuing more diversified investment strategies. Moreover, the preference for more risk/return efficient investments has created a more pronounced demand for indirect investment vehicles. The indirect investment vehicles generally allow the portfolio manager to increase diversification of the portfolio while at the same time increasing returns.

Other important Danish institutionals such as insurance companies *Codan* and *Topdanmark* have property holdings in the DKK 2.5 - 6.5bn range (EUR 0.3 - 0.9bn). 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 (EUR 68 - 270m). PKA is the management company for eight of these minor pension funds. In 2003, some of these pension funds acquired a major portfolio of residential properties from *Nordea* in a transaction worth DKK 770m (EUR 104m). Some of the properties were subject to the pre-emption

right regulations under the Danish Tenancy Act and were thus sold to the tenants. Nordea acquired a portfolio of primarily office properties in the Greater Copenhagen area from Tryg at the sum of DKK 1.2bn (EUR 160m).

Institutionals consider themselves underweight in property, with an overall average of approx. 10% of the portfolios being positioned in property. The property share of institutional investment portfolios has not changed significantly despite the present bull sentiments in the stock market, primarily because institutional investors reduced their exposure to stocks in the wake of the stock market crash in 2001.

Property companies

The most significant property company is considered to be *DADES* with a portfolio of DKK 6.8bn (EUR 0.9bn). This is a private company owned by a group of institutional and private investors. The most significant listed property companies are *Jeudan* and *Nordicom*.

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

Listed property companies are often traded at a discount to their net asset value. 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 currently in the final stages of divesting all assets.

Private investors

For most private investors tax deductibility on properties is a crucial factor in the choice of investment. This criterion is being accommodated for properties used for retail, industrial, warehousing, educational and hotel purposes. Furthermore, as the typical private investor operates with a high degree of leverage, continually low interest rates make the current investment climate ideal for this type of investor.

Thus, the market for private investments has generally been growing 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 around DKK 5 - 6bn (EUR 675 - 810m) 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 occurred partly 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, whose combined market share is considerably smaller than those of the three largest players. To mention a few, *KPC Byg*, *Hofmann & Sønner* and *Pihl & Søn* are all important players in this contracting market.

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

The most important specialised developers are all listed companies. *TK Development* focuses on retail and offices, and is active in Denmark, Sweden and eastern Europe. However, this company has reduced its activities due to its current financial situation. *SjælsøGruppen* is purely a domestic developer specialising in office and residential property. *Keops Development* utilises 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.

Foreign investors

International investors are showing increased interest in the Copenhagen market. In previous years, the investor focus on Scandinavia generally meant that investments were made in Sweden. However, due to the current situation in the Swedish property market, international investors are now increasingly turning to the Copenhagen market, which has yielded high and stable returns well above the 10% mark in recent years. As a result, several new international investors entered the market in 2003.

By acquiring an 80% interest in the *Illums* department store at a prime high-street location from Danish department store *Magasin* for DKK 1.1bn (EUR 148m), *Merrill Lynch* entered the Copenhagen market in late 2003. German *CGI* acquired a 50% interest in the

Field's shopping centre, scheduled to open in Ørestad in early 2004, at a price of DKK 1.5bn (EUR 202m). *CGI* bought the interest from domestic developer *TK Development*. Norwegian *Steen & Strøm* manages the centre and holds the remaining 50%.

A US investor acquired the 9,000 sqm high-street redevelopment property *Cityarkaden* from *DADES*. The transaction sum was DKK 300m (EUR 40m). Another US investor acquired an industrial complex in Copenhagen Airport at the price of DKK 275m (EUR 37m).

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

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

More specialised foreign investors are *Rodamco*, the owner of the *Fisketorvet* shopping centre and a specialist in retail property investments, as well as *Capona* and *Pandox*, both Swedish companies specialising in hotel property investments.

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

A member of the Swedish insurance group *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 property. These

Swedish investors focus on secondary property with a potential for value appreciation through active management.

Due to its financial situation, Swedish construction company *Skanska* has significantly downsized its activities in Denmark. Skanska's interest in Copenhagen has been directly related to its construction operations. However, the former portfolio of DKK 1.3bn (EUR 175m) is now in part being divested.

Providers of commercial property financing

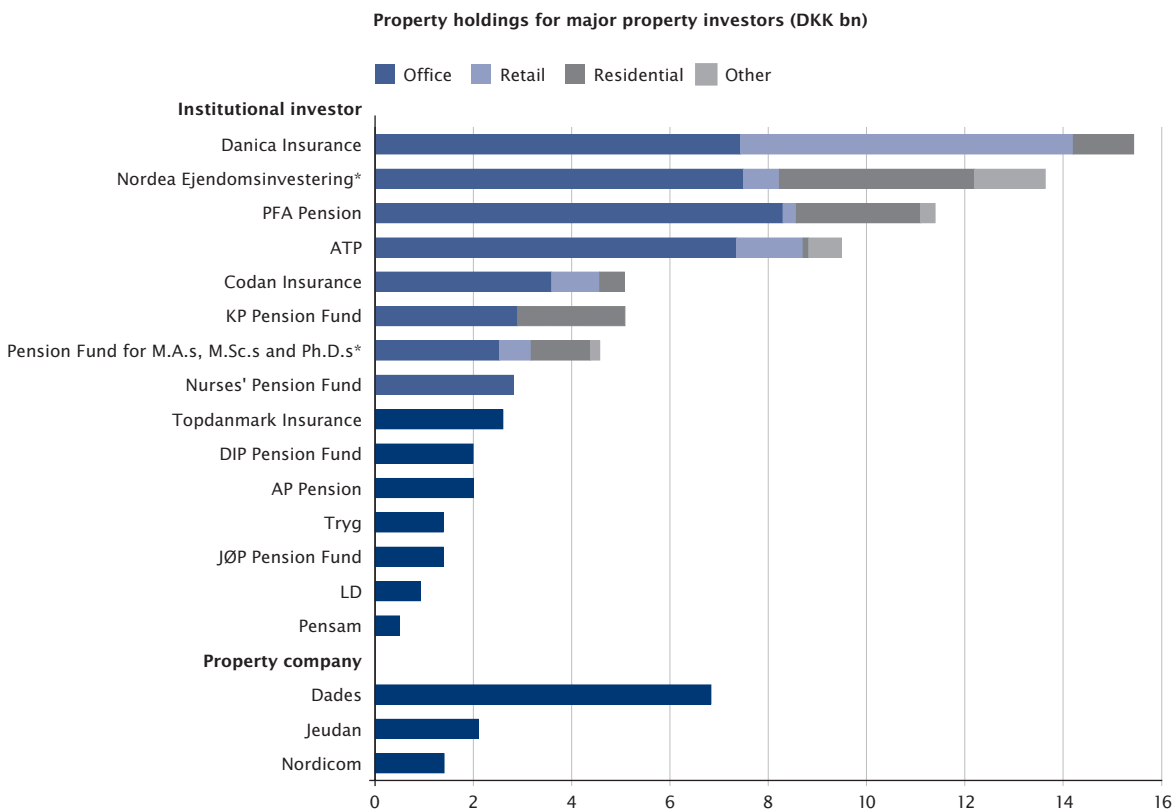
A varied range of enterprises are involved in property financing. The largest Danish providers of commercial property financing are the mortgage-credit institutions. *Nykredit* is the largest mortgage-credit institution in the market. With Danske Bank's acquisition of *Realkredit Danmark* in late 2001,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

Denmark's second largest supplier of financing for commercial property. *BRF Kredit* is the third largest player.

Other domestic mortgage-credit institutions 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*, *HSH Nordbank*, *Allgemeine HypothekenBank Rheinboden*, *Eurohypo* 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*, *Jysk Leasing* and *FIH*, all of which are bank-owned.



Sources: Annual accounts retrieved from the web sites of various investors
 * Estimated by Sadolin & Albæk

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Front page Danmarks Største, Hvidovre

Page 24 Field's, Copenhagen

Page 29 KLP, Copenhagen

Page 40 Kalvebod Brygge 43, Copenhagen

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Sadolin | **ALBÆK**

*Sadolin & Albæk A/S
Nikolaj Plads 26
DK-1067 Copenhagen K
Tel: +45 70 11 66 55
Fax: +45 33 32 72 96*

*Rosengade 22
DK-8000 Aarhus C
Tel: +45 70 11 66 55
Fax: +45 86 20 60 19*

*E-mail: sa@sa-ncor.dk
Web: www.sadolin-albaek.dk
Reg.No. 157519*