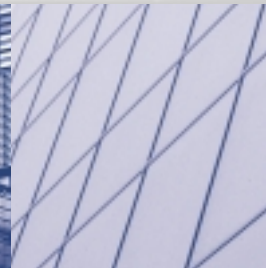


NEWSLETTER JUNE 2004
COMMERCIAL PROPERTY IN DENMARK AND ABROAD



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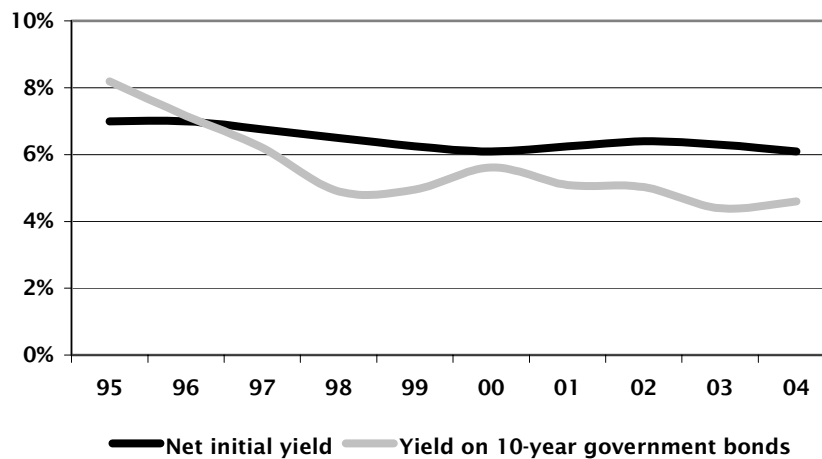
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THE COPENHAGEN PROPERTY INVESTMENT MARKET

Investment market for property shows great degree of stability

The recent uncertainty characterising fixed income markets has had no noteworthy effect on the property investment market. Although an increasing number of analysts predict a rise in long-term interest rates, investors' net initial yield requirements remain stable, even tracing a slightly downward trend.

Prime office yield vs. 10-year government bond yield



Source: Sadolin & Albæk

As illustrated by the figure above, recent months have witnessed a slight narrowing of the gap between the net initial yield on prime property let on 10-year leases and the yield to maturity on 10-year government bonds. This reflects continuously strong property investment demand from domestic institutionals and international investors. Also, it is attributable to the modest supply of new, fully let property benefiting from long leases, resulting primarily from a sluggish trend in new developments.

The substantial investment demand reflects investor confidence that the rental market is bottoming out and that the favourable development in private consumption and employment in the long term will reduce office vacancy rates and increase rent levels.

Property serves as “risk-diversifier” in investment portfolios

In addition, institutional investors are beginning to recognise the merits of real property as an investment asset because it offers a relatively low risk compared to the return obtainable. Moreover, investment portfolios comprising real property offer better risk diversification gains than do portfolios comprised exclusively of stocks and bonds.

We have calculated average risk and average annual returns on the stock market (MSCI, Denmark), on Nordea benchmark (7-10-year) bonds and on commercial property in Greater Copenhagen (the Sadolin & Albæk property price index) in 1988-2003. In this context, risk is measured by the standard deviation, that is, the average deviation from the most likely return.

Our findings are listed in the table below:

	Return %	Risk %
Stocks	11.1	22.0
Bonds	9.8	10.5
Commercial property	8.7	8.1

Source: Sadolin & Albæk

Not surprisingly, stocks yield the highest returns in a long-term analysis. Conversely, risk, measured by the standard deviation, is high.

Despite relatively low returns, commercial property investments compare favourably to stocks and bonds in terms of the return-risk trade-off.

By allocating multiple asset classes to their investment portfolios, investors can spread risk and achieve diversification gains. However, knowing the correlation between different asset classes is crucial in this respect.

The table below shows the correlation coefficients between stocks, bonds and commercial property. A correlation coefficient of 1 signifies perfect correlation, whereas a correlation coefficient of -1 signifies perfect counter-correlation.

	Stocks	Bonds	Commercial property
Stocks	1		
Bonds	0.2	1	
Commercial property	0.1	-0.2	1

Source: Sadolin & Albæk

As illustrated in the table, the correlation between stocks and commercial property is low, indeed lower than the correlation between stocks and bonds. As far as bonds are concerned, the correlation with commercial property is slightly negative.

Accordingly, commercial property in a mixed investment portfolio of stocks and bonds may serve as an ideal risk diversification instrument.

The table below shows a return-risk calculation, measured by the standard deviation, on a portfolio consisting of 60% bonds and 40% stocks, and on a portfolio of 60% bonds, 20% stocks and 20% commercial property.

	Return %	Risk %
60% bonds, 40% stocks	10.3	11.8
60% bonds, 20% stocks, 20% property	9.9	8.3

Source: Sadolin & Albæk

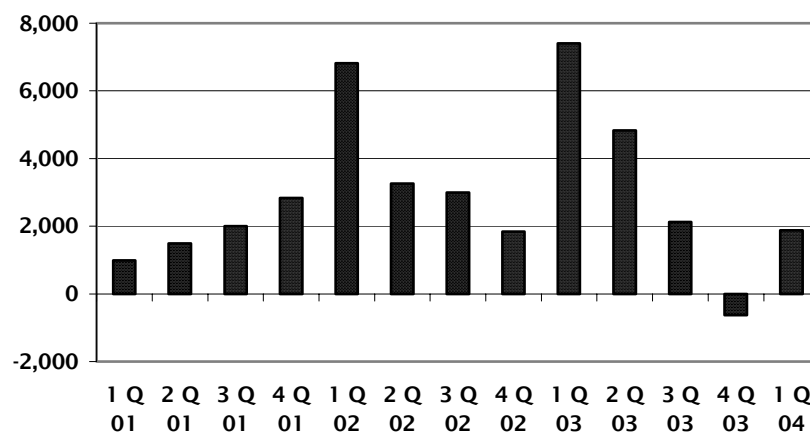
This clearly demonstrates that investors may achieve very substantial risk reductions by allocating property assets to their investment portfolios without incurring any significant loss of return.

Continued strong investment interest from abroad – but lower investment requirements from German funds

The Greater Copenhagen property investment market continues to attract strong international interest. However, whereas several of the more opportunistic US and British funds are still investing in the market, the number of transactions involving German open-ended property funds remains modest, although the funds are key players in many other European markets.

This no doubt primarily reflects the fact that Danish institutional investors and German open-ended funds have more or less identical investment profiles. As a result, competition for attractive investment opportunities is fierce. Moreover, the funds have witnessed a sharp decline in their net inflow of capital in recent years.

Net inflow of capital into German open-ended property funds (EUR m)



Source: BVI – Bundesverband Deutscher Investment-Gesellschaften E.V.

The value of assets held by open-ended property funds totals a stunning EUR 85 billion, which makes them very important players in virtually every European property investment market.

As illustrated by the above figure, the net inflow of capital to German open-ended funds was remarkably high, especially in 2002 and the first half of 2003. The most recent quarterly figures, however, reveal a sharp decline in inflowing capital. As a result, the funds have lowered their investment requirements.

In today's market we are witnessing how the prime yield requirements of German funds match those of domestic institutional investors, and we therefore have no reason to expect investment demand from abroad to force up Danish commercial property prices to any serious extent.

Demand for depreciable property driven to a large extent by prospects of high leverage

There appears to be sustained strong demand for depreciable property from private investors and providers of limited partnerships (the so-called *kommanditselskaber* (K/S)). However, their net initial yield requirements typically seem motivated by prospects of a high degree of leverage rather than by a more fundamental analysis of the individual property's long-term security of tenure and potential for value increment.

Probably on account of past experience, the financial sector is more wary of funding e.g. distribution and warehouse property than retail property and property for education purposes, irrespective of tenants' non-terminability terms and financial standing.

A financially strong and primarily tax-driven private investor may therefore benefit from shifting his focus to property with limited possibilities of aggressive funding, which, in turn, often yields far better returns.

THE COPENHAGEN COMMERCIAL RENTAL MARKET

What's going on with office vacancy rates?

At year-end 2003/early 2004, Greater Copenhagen office vacancy statistics showed a rather sharp decline in untenanted office premises. In view of a relatively stable office rental market in the first quarter of this year and an insignificant number of completed office developments, it therefore came as somewhat of a surprise that the most recent vacancy figures as at 1 April 2004 revealed a renewed increase in available office leases.

As a result, we decided, in co-operation with The Property Association of Denmark, which compiles the *Oline-Lokalebørs Statistikken* commercial vacancy statistics, to review the figures in greater detail and to adjust for the statistical practice by Oline Lokalebørs of

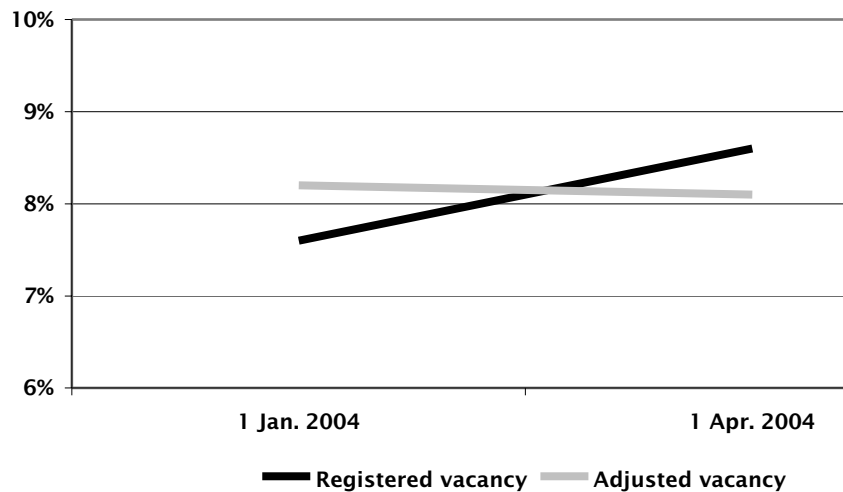
registering existing premises offered to let, which does not necessarily correspond to actual vacancy.

According to our analysis, the vacancy statistics to some extent misrepresent the actual number of vacant premises. The new registration figures quoted as at 1 April 2004 thus include a number of leases that had in fact already been vacated effective 1 January, but had not been put up for let by this date. In addition, we found a few double registrations as well as a few listings of development projects under vacant space. Finally, we noted that the statistics to a certain extent include premises offered to let which had not yet been vacated at the date of data compilation.

Our analysis was based on a review of 5,000+ sqm office leases listed as vacant as at 1 April 2004 which were not included under vacant space three months earlier.

Regrettably, our findings indicate that not only did the vacancy figures at 1 January 2004 underestimate the actual vacancy, the figures as at 1 April were also too pessimistic in terms of actual vacancy. The adjusted vacancy statistics thus show a slight improvement in Greater Copenhagen office vacancy in the course of the first quarter of 2004.

Trend in Greater Copenhagen office vacancy rates



Source: *Oline-Lokalebørs Statistikken / Sadolin & Albæk*

A broad range of market players and The Property Association of Denmark have made a considerable and competent effort to ensure reliable vacancy figures, which are key to a transparent and well-functioning property market.

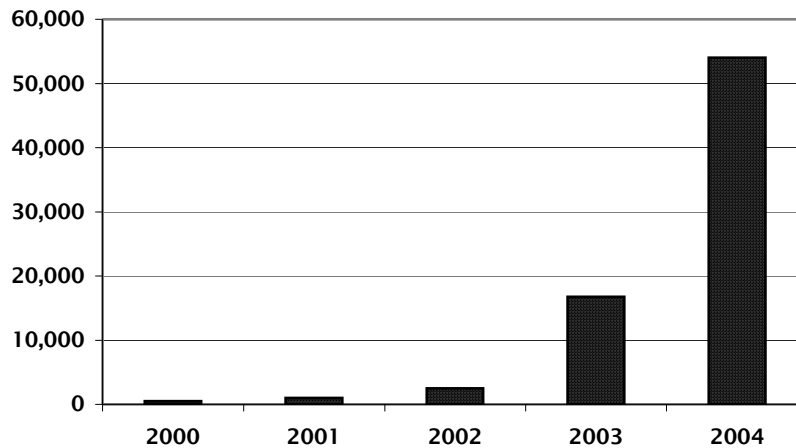
We urge the property industry to make available the resources required by Oline-Lokalebørs Statistikken in order to safeguard more valid registrations of actual vacancy.

Increases in economic growth and employment will help reduce vacancy rates further in the next few months

The economic stimulus package introduced in Denmark this spring, coupled with an economic recovery worldwide, signals an increase in domestic growth and domestic employment. Adding to this a sluggish market for new office developments, we believe that office vacancy rates have peaked and are likely to improve within the next few months.

Furthermore, the number of schemes to convert offices into residential use has swelled to a rather significant level.

Est. sqm office space converted for residential use, Copenhagen and Frederiksberg



Source: Sadolin & Albæk

According to the City of Copenhagen, the capital welcomed some 185 new residential units in 2003 as a result of commercial conversion schemes. We estimate the number of conversion schemes to soar to triple this figure in 2004, and within the span of only a few years some 70,000 sqm of offices in the City of Copenhagen and the district of Frederiksberg will thus have been converted, corresponding to more than 20% of current vacancies.

The decline in office vacancy rates will hardly be sufficiently dramatic to fuel a serious surge in new office developments within the next two years. Nevertheless, we believe that office rents will increase as early as in 2005.

The more peripheral office areas, which suffer from high vacancy rates, will experience continuously weak rent levels. This also ap-

plies to new office development areas, which still have a considerable portion of undeveloped space designated for office use. Conversely, we expect a slightly stronger increase in market rents in Copenhagen CBD, where major conversion schemes from office into residential use contribute to reducing office vacancy.

Forecast for office rents (DKK/sqm p.a. excluding taxes and operating costs)



Source: Sadolin & Albæk

For businesses entertaining relocation plans and seeking to secure new leases at competitive rents, it therefore makes good sense to commit within the next 12 months or so. In the current market, many businesses will be able to land up-to-date, flexible office premises at rent levels matching those of their former, less attractive lease.

The opening of Field's has not weakened the CBD retail market

This March saw the opening of one of Scandinavia's largest megacentres, Field's, in Ørestad. Already fully let, the centre seems to have got off to a good start, posting a turnover in line with expectations.

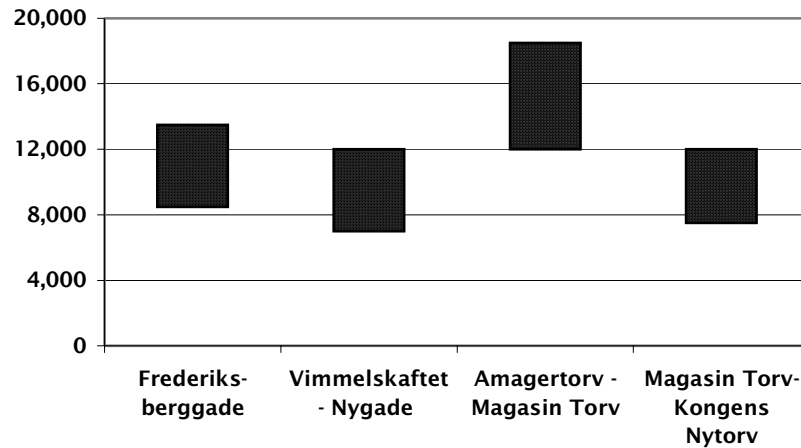
Despite a host of gloomy predictions, we believe that so far the opening of Field's has not in any significant way weakened the CBD market for specialised shops.

In our opinion, the CBD retail market on Strøget remains strong, and we have no reason to anticipate a drop in rent levels.

A contributing factor to the rather strong retail rental market is the increase in consumer spending recorded in recent months. Confidence in a sustained recovery in consumer spending, and consequently in retail turnover, is no doubt a crucial element in the present investment interest displayed by retail chains.

The figure below shows the actual spread in retail rent levels at various locations on Strøget. Rent levels are quoted for “Zone A”, denoting retail areas situated not more than 10 metres from the shop front.

Retail rent levels on Strøget – “Zone A” (DKK/sqm)



Source: Sadolin & Albæk

Foreign investors to develop CBD retail buildings with new retail areas and fresh concepts

Two of the largest retail buildings in central locations on Strøget, namely the Illums department store and Cityarkaden, have been taken over by foreign investors within the last 12 months for the purpose of development or re-development. The investment volume, including investments in upgrading, totalled in excess of DKK 1.7 billion.

These investments clearly demonstrate considerable confidence on the part of foreign investors in regard to Strøget’s ability to retain and further consolidate its position in the competition with shopping centres in the Copenhagen area.

THE RESIDENTIAL RENTAL PROPERTY MARKET

New residential rental property prone to vacancy

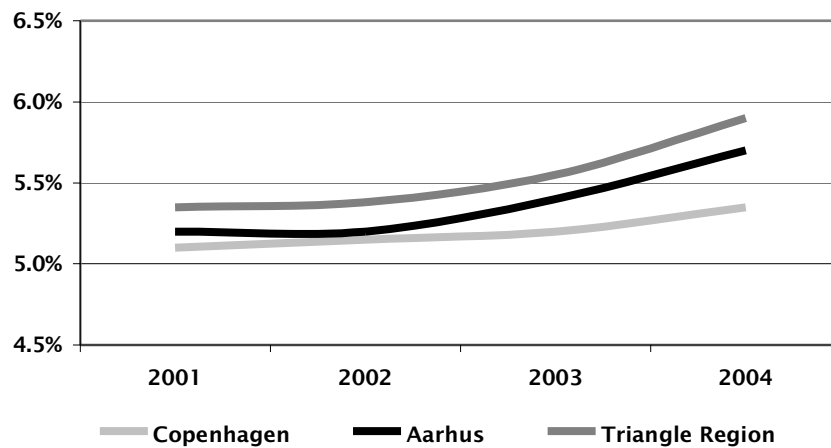
As regards rental property in good locations in Copenhagen, Aarhus and other important towns and cities vacancy has been a virtually unknown phenomenon in recent years. Demand for rented flats has indeed far exceeded supply.

This continues to apply to flats in older building stock, as they benefit from artificially low rents determined by the Danish regulations on turnover-related rent. However, it no longer applies to new property with rents determined by market levels, and even in major

towns and cities the most expensive rental flats are experiencing vacancy.

For new residential rental property, on the other hand, investors are demanding higher net initial yields based on the perceived vacancy risk.

Net initial yields on new residential rental property



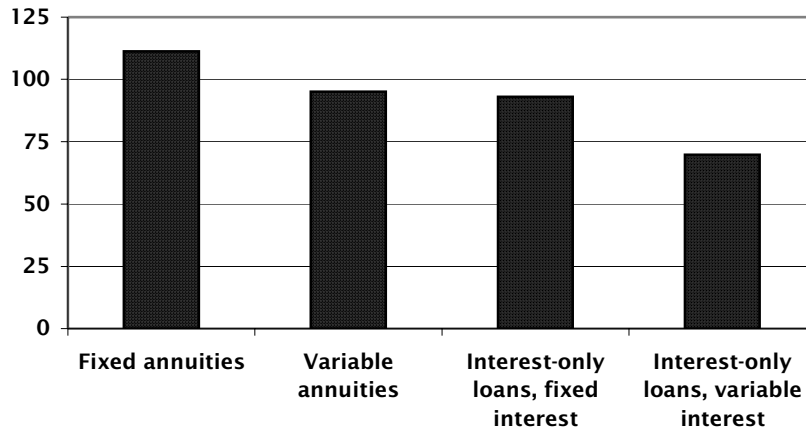
Source: Sadolin & Albæk

Although new residential developments have increased at a fair pace in recent years, vacancies are not caused by an oversupply of residential space, but rather by a shift in residential demand towards owner-occupied or co-operative flats, which seem to become more and more attractive with the introduction of new home mortgage loans.

Interest-only mortgages signal decline in market rents on residential rental property

The introduction of interest-only mortgage loans has driven up prices in the owner-occupier market. Nevertheless, the equilibrium between rental costs and ownership costs has shifted dramatically in favour of ownership.

Index of first year's net costs for owner-occupied housing
(rental housing costs = 100)



Source: Sadolin & Albæk

The above figure illustrates the first year's typical net costs after taxes when opting for owner-occupied housing rather than comparable rented housing at market rent.

As can be seen, ownership costs exceed rental costs by 11% when applying standard fixed rate annuity loans, whereas ownership costs are slightly less when opting for either variable rate annuity loans or interest-only mortgage loans carrying a fixed interest. If, on the other hand, a residential buyer opts for an interest-only mortgage carrying a variable interest rate, the first year's net ownership costs fall significantly below the market rent for comparable housing.

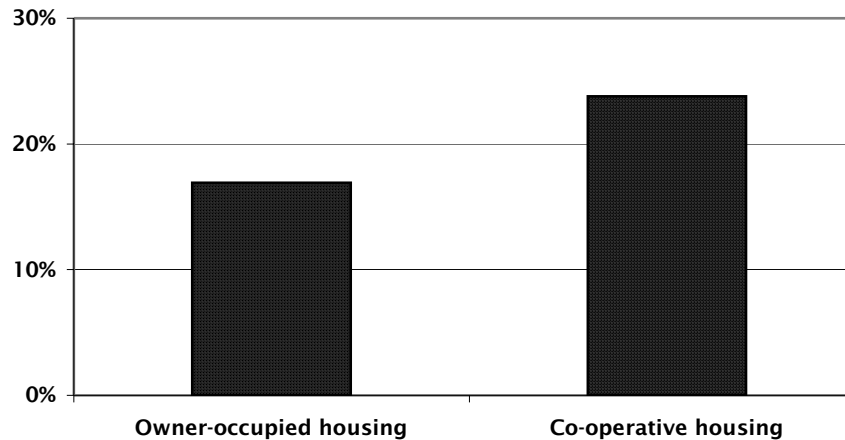
Not surprisingly, an increasing number of home hunters choose ownership over tenancy. All things being equal, this will put market rents for residential rental property under pressure, especially in locations outside Copenhagen with a tradition for ownership.

The residential market is becoming increasingly susceptible to interest rate fluctuations

Needless to say, the more widespread use of home mortgaging at variable interest rates renders the market highly susceptible to interest rate fluctuations. A rise in interest rates is therefore likely to prompt an increase in the supply of owner-occupied and co-operative housing, as owners cannot afford the additional service payments.

This increased susceptibility especially rings true in the case of new co-operative housing financed by variable interest rate loans. A co-operative owner is not entitled to any tax allowances in respect of interest payments made by the co-operative society, and as a result a rise in interest rates is bound to hit co-operative housing with variable rate financing harder than owner-occupied housing with equivalent financing.

Increase of net service payments following a 100 bp rise in interest rates



Source: Sadolin & Albæk

The figure above shows how a 100 bp rise in interest rates from today's level would typically result in increased net service payments on owner-occupied and co-operative housing financed by variable interest rate loans.

If interest rates should indeed increase, we fear that new co-operative housing could be in somewhat dire straits if the loans raised by the co-operative societies carry variable interest rates, and even more so if the loans are interest-only loans to boot.

Post-1966 residential rental property to be divided into owner-occupied flats to effect a sale of vacant units

Residential property erected after 1966 qualifies for division into owner-occupied flats. This type of property, which seems prone to a more structurally determined vacancy, would be ideally suited for an application to establish owner-occupied flats, which may be sold off individually in step with move-outs.

We therefore also believe that pricing patterns in the investment market for new residential rental property will change to the effect that buyers give lower priority to direct returns and higher priority to analyses of the projected rate of move-outs and price expectations for owner-occupied housing, and as a result the net profit obtainable in gradual sales of vacant flats for owner-occupation.

Except for property protected by a preservation order, property erected before 1966 does not qualify for division.

Accordingly, those standing to lose are the owners of pre-1966 residential rental property, who at the time of purchase accepted very low net initial yields, expecting to modernise individual flats as tenants moved out with a view to subsequently re-letting the flats at market rent.

INTERNATIONAL PROPERTY INVESTMENT MARKETS

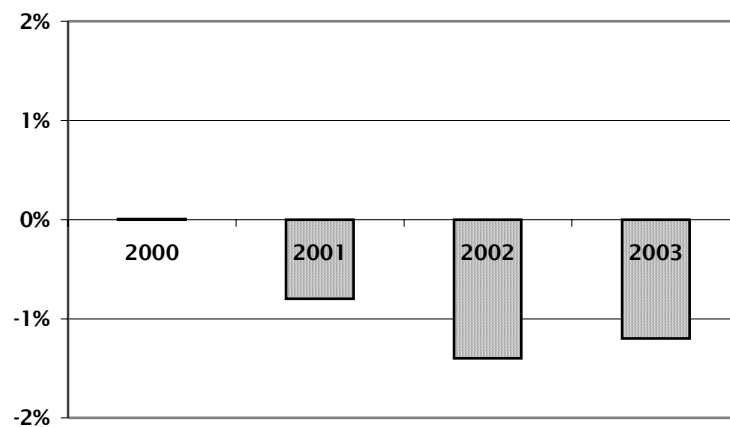
German property prices in continued fall several years in succession

In this NewsLetter, we have chosen to feature current trends in the German property investment market, which for a number of years suffered from the effects of the sluggish German economy. Today, however, it seems to offer quite interesting investment opportunities.

When recession hit Europe in the early 1990s, Germany was initially spared. Following the German reunification enormous capital funds were injected into the new *Bundesländer*, and with this new market a great expansion potential opened up to German businesses.

This said, however, German businesses suffered blows in the home market when the reunification bill had to be footed. Moreover, Germany continues to grapple with significant unresolved structural problems, which is reflected in the somewhat high German unemployment rate, among other things. It is therefore hardly surprising that the German property market has been indeed very weak in recent years.

Average development in commercial property prices, Germany

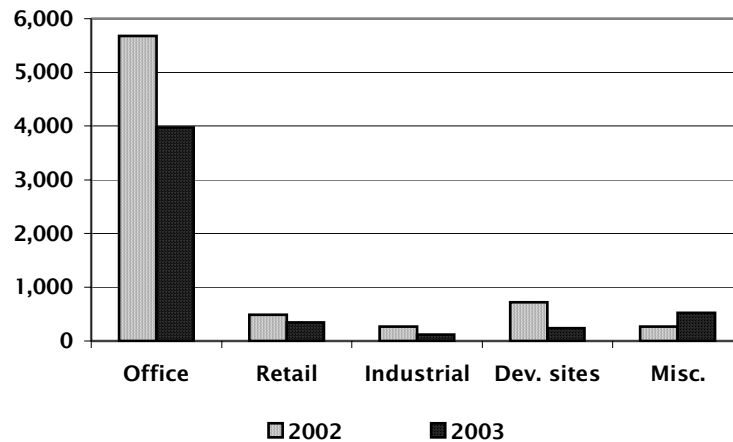


Source: EuroProperty

Transaction volume on the decline in German property market

As a result, German investors who feared excessive exposure to property in their weak home market made international property investments on a large scale, causing the commercial property transaction volume to plummet by as much as 30% from 2002 to 2003 in the largest German cities.

Commercial property transaction volume, 5 largest cities in Germany (EUR m)



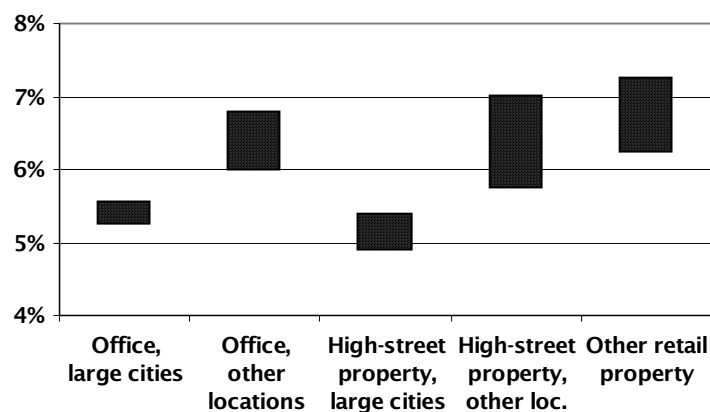
Source: Müller International

Most recently, the net capital inflow into German open-ended property funds, as mentioned above, has put an additional dampener on investment demand in the German market. German investors who are active in the market primarily focus on fully let, up-to-date office property and high street property in the largest cities, i.e. the segments traditionally coveted by institutional investors.

Especially in medium-sized cities net initial yields on investment property far exceed rate of financing

As a result, the supply of investment property in other segments therefore vastly exceeds demand from German investors. Even if necessary to accept low turnover figures because many prospective sellers are unwilling to trade at prices quoted in the market, we are seeing investment property, fully let on long leases with financially strong tenants, at highly competitive net initial yields relative to the rate of financing.

Net initial yields on investment property, Germany



Source: Sadolin & Albæk

Risk of continued fall in prices in regions with negative population growth

Nevertheless, it should be emphasised that in some areas of Germany population figures are on the decline. Caution is always advised in connection with property investments in such areas, where the long-term structural demand for offices, shops and housing is notoriously weak.

This applies in particular to the new Bundesländer to the east, where persistently high levels of unemployment and sluggish business development trends have motivated considerable migration to the financially stronger regions in the western part of Germany.

Recovery will not materialise until 2005-2006 at the earliest

The German property market is not on the verge of recovery. Although the economy indeed seems to be picking up slightly, the home market is characterised by pessimism, and substantial structural problems need to be resolved, as mentioned earlier.

Conversely, we see a substantial excess direct return relative to the rate of financing on commercial property let on long-term leases to reliable tenants as well as on portfolios comprised of fully let residential property in rather good locations. Such a “yield spread” opens up the possibility of accumulating significant equities, despite lacking prospects of a short-term rise in property prices.

Investing in German property often poses great challenges. This is largely attributable to trade customs and cultures, which often seem very different from the usage familiar to investors of Scandinavian or UK origin.

Nevertheless, the gradual swelling in the ranks of somewhat opportunistic US and British property funds active in Germany indicates that cash-flow oriented investors may find good openings in today’s German market, provided the cultural barriers are overcome.

Sadolin & Albæk • ONCOR International

Since Sadolin & Albæk was founded more than 35 years ago, the company has been a leading commercial property agent and adviser, providing e.g. the following services:

- Mediation of commercial properties and investment properties, including office properties, retail properties and shopping centres, major industrial or residential letting properties, distribution properties, hotels as well as property companies.
- Investment strategies and portfolio analyses as well as asset management.
- Mediation of major lease premises, including advisory services to tenants in regard to localisation strategies, identification of lease premises as well as negotiations with property owners, developers and authorities (tenant representation).
- Consulting services in regard to corporate use of areas and exposure in property assets, including project finance and sale & leaseback.
- Valuation of individual properties and property portfolios.
- Consulting services concerning project conception and urban development.
- Analyses of the commercial property market.

Through a strategic alliance with leading Scandinavian property advisers, i.e. NewSec in Stockholm and DnB Næringsmegling in Oslo, Sadolin & Albæk is able to assist Scandinavian and international companies with property consulting and property mediation throughout Scandinavia.

Sadolin & Albæk is a member of ONCOR International, an international organisation with a membership composed of highly professional companies involved in the purchase and sale of commercial properties as well as consulting in that field.

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.

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