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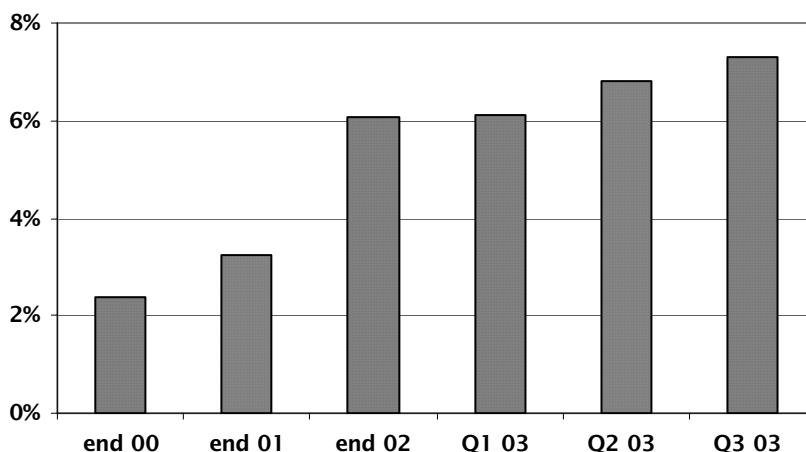
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THE GREATER COPENHAGEN OFFICE LETTING MARKET

Office vacancies continue to rise, but are expected to stabilise

Sluggish demand for office lettings in the Greater Copenhagen area during the first six months of 2003 combined with very weak activity in the rentals market has continued to drive up office vacancies to now stand at more than 7% of the total office space.

Greater Copenhagen office vacancies



Source: Ejendomsforeningen Danmark

However, it is encouraging to note a post-summer increase in new lettings, and we do not expect any further noticeable increase in vacancy rates.

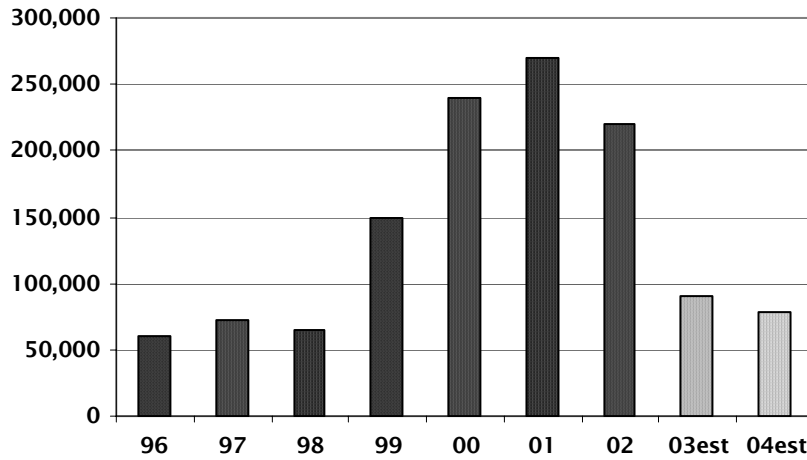
Slowdown in building starts stabilises the office market

Although weak economic conditions are forecast to persist, we do have hopes for a budding recovery. Moreover, there is good reason to expect that office building starts will come to an abrupt halt in 2003-2004, thereby significantly stabilising the commercial property market.

In the long term, we expect the metropolitan region to sustain new developments of around 150,000 sqm annually. In the period 2000 to 2002, new office developments totalled approximately 250,000 sqm annually, and it therefore comes as no surprise that the market is characterised by a certain excess capacity.

As appears from the figure below, we expect office building starts in the metropolitan region to range between 75,000 sqm and 90,000 sqm annually in 2003 and 2004, respectively.

Office building starts in the metropolitan region (sqm per year)



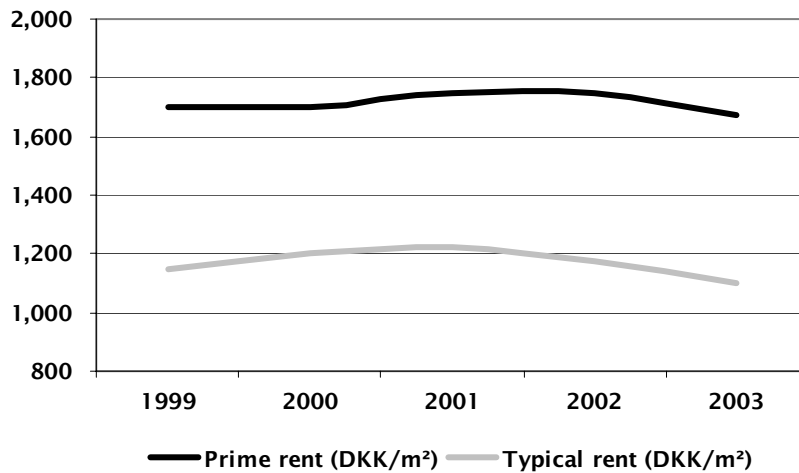
Source: Sadolin & Albæk

Even assuming that economic conditions continue on a weak note, the slowdown in building starts will naturally cause vacancy rates and office rents to stabilise.

CBD office rents down by more than 10% since 2001

It stands to reason that the increase in vacancies has triggered lower rents.

CBD and waterfront district office rents (DKK/sqm per year)



Source: Sadolin & Albæk

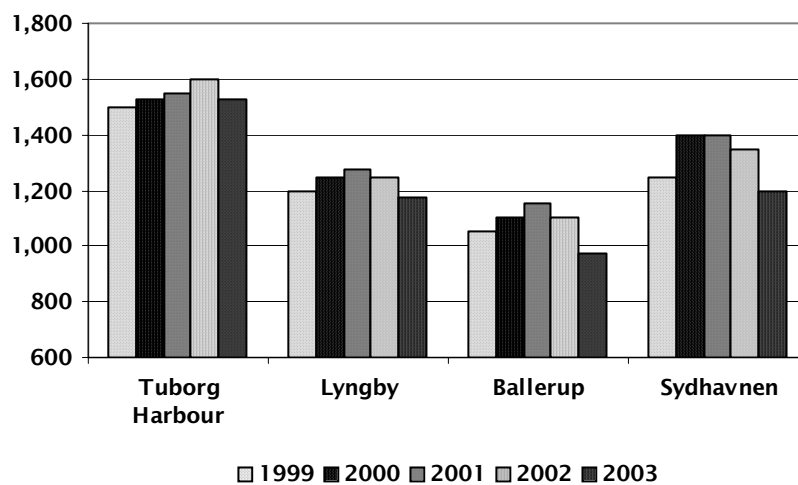
As shown in the figure above, the typical rent for ordinary good standard office lettings declined from 2001 to 2002, and the downward trend has continued in 2003.

The market for prime modern offices in the northern CBD waterfront districts was relatively stable until 2002, but an increase in the supply of vacant premises to let or sublet has resulted in declining rents in this area as well.

Ballerup and Sydhavnen hit by sharpest decline in rents

Prime rates in non-CBD areas have dropped as much as 15% over the past year, with Ballerup and Sydhavnen recording the sharpest declines. Both of these districts are dominated by IT and telecoms businesses.

Trend in prime rates (DKK/sqm per year) for office lettings in selected areas



Source: Sadolin & Albæk

We do not see any reason to expect a further decline in office rents in the Greater Copenhagen area. However, in our experience, today's tenants focus increasingly on interior design, and therefore landlords are often required to invest considerable amounts in fitting up vacant office premises when re-letting to new tenants.

Few office properties converted for other purposes

Players in the political arena have suggested that vacant office space in central Copenhagen be converted for residential purposes to meet the fierce demand in this market.

However, only very few older office properties have actually been converted for residential purposes, as such conversions often involve quite substantial costs.

Because of demands for escalator access, fire escape routes, etc., such conversions are often extremely complicated, especially if the existing property is to be converted into flats of up to 120-150 sqm. Yielding a rent per sqm in line with market rents for office lettings, this is the most sought after flat size.

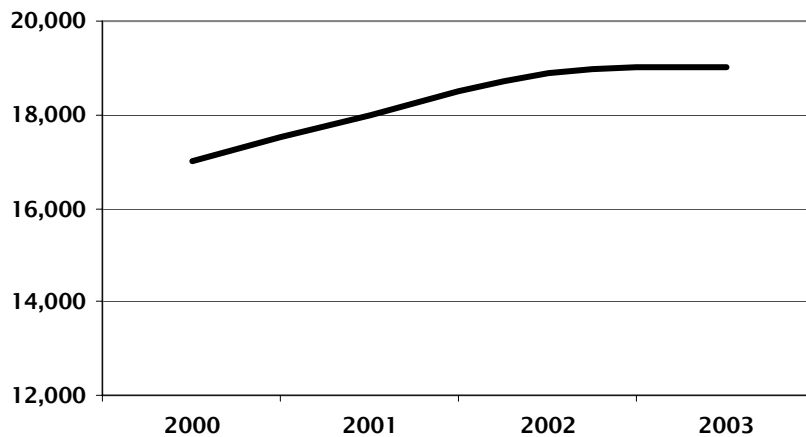
THE COPENHAGEN RETAIL PROPERTY MARKET

Stable high-street retail rates

The central Copenhagen retail market continues to be characterised by stable, strong demand from Danish and international retail chains. The relatively weak economic trends combined with the increased supply of retail space in connection with the establishment of *Field's* in the Ørestad and the expansion of several major shopping centres in the region has thus not put the high-street retail rental market under serious pressure.

Prime rent for first-rate location floorage in the most attractive high-street shops are stable at around DKK 19,000 per sqm, and we expect rates to remain at this level for the next 12-24 months. In the long term, however, a slight decline in this area cannot be ruled out.

Prime rent (DKK/sqm per year) for high-street retail space



Source: Sadolin & Albæk

New Act on Business Leases has caused rents to increase and key money to decline

With effect from 2003, the new Act on Business Leases introduced freedom to assess documentation in rent review cases concerning business leases. Previously, there was a requirement to document the market rent by reference to comparable leases, but the new regulations allow for alternative ways of documenting market rent, including by expert valuation.

The new regulations have of course not yet affected the obtainable market rent for new business lettings, but they have undoubtedly

caused average rents for high-street retail leases to increase. Previously, rent increases on existing contracts were limited by the fact that the comparable leases that could be identified had often been leased at rates lower than the rent levels applicable to new business lettings.

On the other hand, there is hardly any doubt that the amount paid in the form of key money on assignment of high-street retail leases has declined, as key money should now primarily reflect actual location goodwill and only to a very small extent make up for retail rents being lower than the market rent for new business lettings.

Introducing a zoning system similar to the British model would improve transparency in retail rates

High-street retail rents are difficult to analyse, and this makes for very little market transparency. Naturally, high-street locations vary greatly in attractiveness, as footfall differs substantially depending on the specific high-street location.

Other key factors include shop design, size, frontage and access facilities.

Retail floorage located closest to the front of a shop is obviously more attractive than floorage located at the rear of a shop with a narrow front.

In Britain, a well-functioning zoning system is used to determine high-street retail rents. Retail rents are stated as a "Zone A" rate which refers to the rent payable for floorage located not more than (normally) 30 feet from the front of a shop. Floorage located more than 30 feet, but less than 60 feet, from the shop front, is designated "Zone B". The rent here is 50% lower than the "Zone A" rate. "Zone C" floorage is located more than 60 feet from the front of the shop and let at rates equivalent to 25% of the "Zone A" rate.

Accordingly, the total rent for a shop of 100 sqm let at an annual "Zone A" rate of GBP 2,000 per sqm is not necessarily GBP 200,000. The actual total rent depends on how the total floorage distributes on the various zones.

This differentiation obviously reflects the fact that floorage located closest to the front of a shop generates a higher turnover per sqm than floorage located to the rear.

We believe that introducing a rent system similar to the British model would make high-street rents more transparent and comparable, thereby making it possible to actually compare rents for shops in similar locations, but which are essentially different in design. It should be noted that to some extent the Danish housing tribunal has for years applied similar principles when dealing with cases concerning adjustments to reflect the market rent.

THE PROPERTY INVESTMENT MARKET

High institutional and foreign demand, weak supply of suitable property

Danish institutional investors and a number of German funds are to a large extent demanding the same type of investment property: Modern office property in prime locations, including, not least, new developments fully let to tenants of good financial standing on 10-year interminable leases.

However, the hefty decline in building starts has the effect that very few new corporate headquarter developments or pre-let property projects are put up for sale in the investment market.

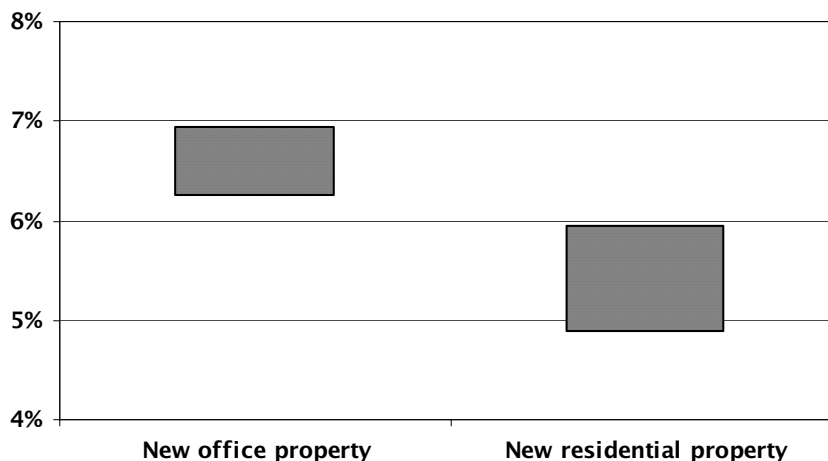
Because of the weak supply of new office headquarters, pension funds and life insurance companies are increasingly having to invest in other types of property.

New residential developments may offer attractive investment opportunities

In recent years, institutional investors have only made very limited investments in residential developments.

The weak supply of investment property in the form of new office developments let on long-term leases combined with the low level of interest rates will, however, cause institutional demand to refocus on new residential developments, which typically offer initial yields some 100bp lower than office property but well above the risk-free rate of interest provided by 10-year government bonds. Moreover, there is virtually no vacancy risk in Greater Copenhagen residential developments whether short term or long term.

Net initial yields on new office and residential developments



Source: Sadolin & Albæk

Recent years' boom in high-end residential developments has saturated the market for this type of property, and we therefore believe that investor demand, in particular in Copenhagen, will turn to property in the medium-priced segment.

Institutional investors are selling off older housing complexes

Older housing complexes, subject to the regulations on cost-driven rent, are not priced according to the usual net initial yield model, but on the basis of expectations that yields may improve in the long term through complete refurbishment of vacant flats.

As a result, such property is often sold at per sqm prices that are more than 50% below those of new developments, but offering very low current yields (in Copenhagen often between 1.25% and 3.75% of the capital invested).

As a number of key institutionals now focus on current yields rather than on potential value appreciation, we are seeing considerable divestments of older housing complexes.

A few pension funds continue to maintain a portfolio of older residential property, but otherwise this residential segment primarily attracts the interest of private investors who are less focused on the current yield generated by their investment.

Experience shows, however, that more than 90% of older housing complexes traded in Greater Copenhagen today are taken over by tenants under their statutory right of first refusal and converted into cooperative property.

The probability of tenants taking over a housing complex to convert it into cooperative property has become so high that investors increasingly tend to shy away from bidding on such property, as the expenses of carrying out a proper investment analysis and due diligence are incurred to no avail in the vast majority of cases. We believe there is good reason to introduce a requirement in Danish lease legislation to the effect that a cooperative society acquiring a property under the right of first refusal be obliged to reimburse the unsuccessful prospective buyer for any reasonable expenses incurred in connection with any such futile investigations.

The property investment market currently dominated by private investors and property companies

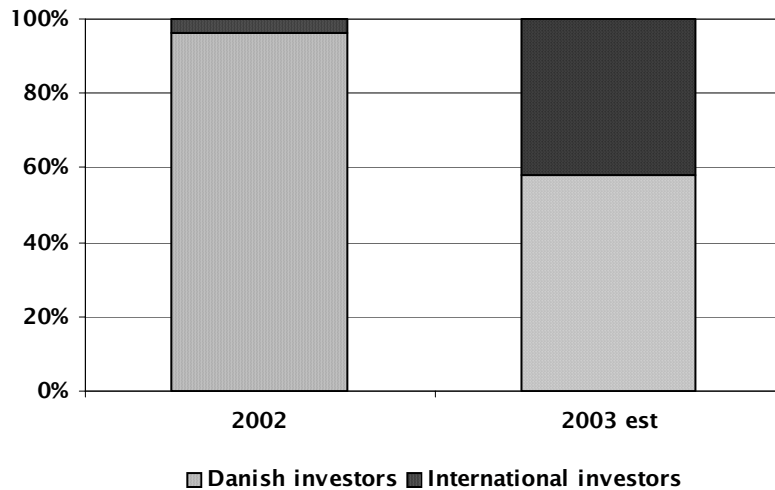
Today, the property investment market, including in particular older commercial property, is driven primarily by private investors and property companies that are not as reluctant as most institutionals to assume a potential vacancy risk.

As far as retail property is concerned, tax write-offs continue to play a major role, while private investors increasingly demand office property and mixed property as well with no, or very few, tax write-offs.

International investors have become important players

In recent years, the property investment market in the metropolitan region has attracted considerable interest from foreign investors, but not until this year have they become a force to be reckoned with.

Property investments broken down on Danish and international investors



Source: Sadolin & Albæk

As appears from the figure above, foreign investor activity in the Greater Copenhagen property market was negligible in 2002.

However, we expect international investors to account for more than 40% of the volume in the investment property market in 2003. International investors in particular are showing considerable interest in very large transactions of more than DKK 300-500 million.

Investors increasingly prefer property portfolios over individual properties

Over the past 10 years, investment property in Denmark has predominantly been traded in individual rather than in portfolio transactions.

The reason for this is that buyers of property portfolios have typically calculated a certain portfolio discount based on the fact that some properties in a portfolio are normally less attractive to the relevant investor than others.

This has induced owners to dispose of property portfolios by selling individual properties to individual buyers, thereby obtaining a better price that could fully offset the extended time and in-

creased cost typically related to the disposal of large property portfolios through individual sales.

However, a number of factors indicate that we can expect an increase in portfolio transactions in the years ahead.

Acquisition of a large property portfolio often offers appropriate risk diversification, and in many cases this will make foreign financial institutions more willing to accept more aggressive financing than they would have done in connection with individual property transactions.

Moreover, foreign investors interested in the Danish market will always seek to build critical mass in order to justify the initial costs and management expenses related to investing in a new market.

Experience from the Swedish property market shows that large property portfolios are likely to attract interest from important foreign investors who are often reluctant to engage in individual investments.

We therefore believe that – unlike previously – it is now possible to obtain the same or even a better price by selling property in large portfolios rather than individually.

Secondary property portfolios offer very attractive returns with gearing

In today's market, secondary property portfolios, such as portfolios of older office, industrial or warehousing facilities in secondary locations, are typically priced at net initial yields of 9-10%.

At such initial yields, and given current interest rate levels, investors may generate a very high return on their capital by gearing their investment. This also applies if projections assume significant portfolio vacancy.

Based on a model portfolio of such property acquired at a net initial yield of 9.0%, index-linked at 2.0% p.a. and geared at 60% of the value at a fixed interest rate of 5.5%, we have analysed the internal rate of return on such an investment over a 10-year period.

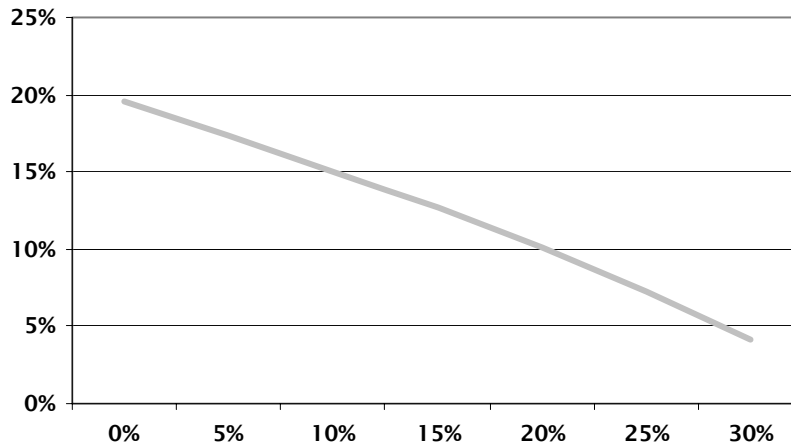
For the purpose of this analysis, we have assumed a portfolio value after 10 years equivalent to actual net operations providing a net initial yield of 10%, that is, without regard to the value of vacant premises.

If the portfolio is fully let during the period of analysis, the internal rate of return on the investment would be almost 20% p.a.

Assuming a 10% vacancy during the entire period of analysis, the

internal rate of return would be at least 15% p.a. Even if the vacancy increases to 20%, the portfolio would still generate a return on the capital invested of 10.1% p.a.

Internal rate of return on a model portfolio of secondary property as a function of vacancy



Source: Sadolin & Albæk

As appears from the figure above, the analysis confirms that investors may be wise to consider secondary property portfolios in secondary locations in which the relatively high initial yield can offset quite significant vacancy rates.

When can we expect to see indirect investments in Denmark?

As a result of the amendment of pension investment return taxation in Denmark a few years back, institutional investors' indirect investments in the property market in the form of listed and unlisted property companies have become subject to double taxation, unless the company is owned exclusively by Danish institutionals.

Tax transparent property funds have been set up in all major international property investment markets in recent years to allow indirect investments in the property market, and therefore many people are asking themselves when such investment opportunities – which would likely attract capital from private (including individual pension schemes), institutional and foreign investors – can be expected in the Danish market.

Initial attempts have already been made to establish such indirect and tax transparent investment funds (e.g. in the form of limited partnerships, general partnerships or other partnerships). How-

ever, as opposed to almost all other European markets, an efficient market for such investments has yet to evolve in Denmark.

If new tax transparent investment companies are to be successfully established, they must have the power to acquire a relatively large property portfolio relatively quickly.

Otherwise, the initial costs would be prohibitive, investors would not achieve an appropriate risk diversification, and the equity investments would be illiquid.

This fact also indicates that, in the long term, large property portfolios will be traded at prices often generating a small premium relative to the total value of the individual properties.

Private pension savings cannot be invested in property without triggering double taxation

Danish private investors do not yet have a liquid vehicle for investing their annuity and capital pension schemes in the property market on terms which, from a taxation point of view, allows property investment returns to be treated in line with bond or equity investment returns.

Considering the fact that, based on an overall assessment of risk and return on various investment assets, it is normally considered prudent to invest 10-15% of a long-term investment portfolio in property, it seems rather incomprehensible that such tax transparent property investment opportunities aimed at individual pension schemes are not yet available in Denmark.

INTERNATIONAL PROPERTY MARKETS

Interest among Danish private investors for the German property market has seen decent growth in recent months, including from the so-called 10-man limited partnerships.

To accommodate this demand, the international property market report in this issue of our Newsletter focuses on the German market.

Growing office vacancy and declining market rent in German office markets

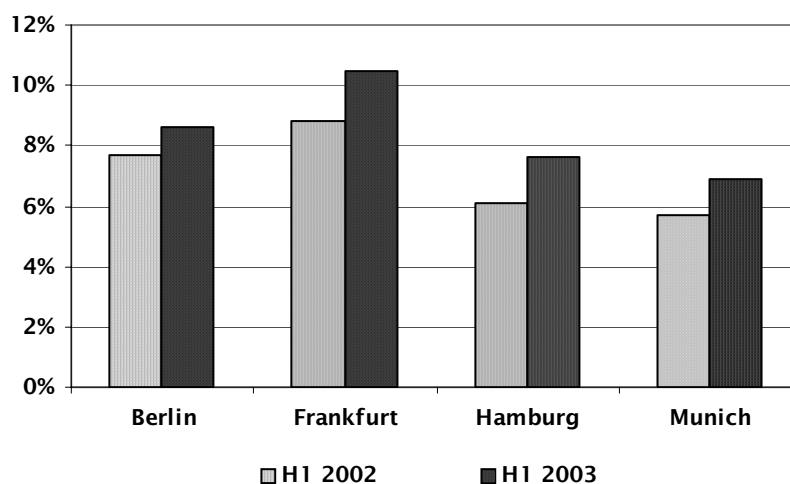
Having bordered on actual recession in 2003, the German economy is anything but positive right now.

Although there have been certain signs of recovery, the US dollar depreciation against the euro would indicate that German exports are not set to generate growth to any significant extent. In addition, consumer spending is weak and marked by generally pessimistic sentiments.

As in all other major property markets, office vacancy rates have

been increasing.

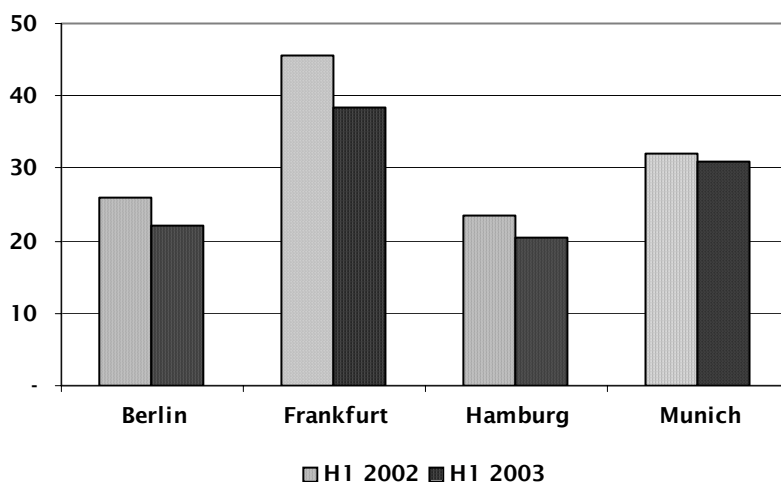
Vacancy rates in German office markets



Source: ONCOR International

As can be seen from the figure above, office vacancy rates have risen in all major German cities during the past 12 months and now stand at between 7% and 11%.

Prime office rents in euro per sqm per month



Source: ONCOR International

It stands to reason that the growing vacancy rates have triggered lower rents.

Berlin and Frankfurt have suffered the largest setbacks, as rents for prime office space in first-rate locations in these two cities have dropped by about 15% in the last couple of years. Munich, on the other hand, has been the most stable market with only a 3% fall in prime rents.

German banking sector reluctant to provide property financing

German banks have traditionally been prepared to provide quite aggressive funding for development projects and existing property. Reports of private investors and property companies in Germany mortgaging up to 90-100% of their investment are not unusual.

Consequently, with virtually all sectors of the property market experiencing rising vacancy rates and declining property values, the German banking sector is holding some quite significant property loan portfolios that could be rendered non-performing by the collateral provided or the lack of customer repayment ability. As a result, German banks are very reluctant to provide property financing right now.

Secondary property in small and medium-sized cities may come under sales

The restrictive approach by German banks will have only a marginal influence on the investment markets for modern commercial property in major German cities. Given their constant, large placement needs, the open Immobilien property funds are clearly the dominant players in these markets.

pressure

Developments in the more secondary markets, especially in the small and medium-sized cities, could become much more dramatic. As these markets are dominated by private investors and property companies, the approach taken by the banks will have a much stronger impact there.

We would not rule out that this could trigger relatively strong sales pressure in such markets, both from investors being forced by the banks to reduce their property portfolios and from banks that have repossessed property because of non-performing loans.

The crisis may trigger attractive investment opportunities over the next 12-24 months

The more secondary German investment property markets are experiencing quite weak turnover rates right now. Prospective sellers are still demanding unrealistic prices and prospective buyers are having to meet much greater equity requirements from the banks than they have otherwise been used to.

There are no indications as to whether the German banks with the largest portfolio of non-performing property loans will try to reduce their exposure gradually or if they will look for more drastic solutions, such as putting portfolios of non-performing property loans on the market.

US vulture funds are currently hovering above the markets, ready to capitalise on opportunities to acquire property or non-performing loan portfolios.

Should one or more of the major German banks involved in property funding choose to clean their balance sheets by selling property or non-performing loan portfolios, the potential effect on the property market could be quite dramatic.

Buyers of such portfolios would have a much more aggressive management approach in order to secure an exit within only a few years. This would make for sharper property pricing, as well as improving liquidity and turnover in the market.

In other words, there may be good reason to assume that the German market could offer some very attractive investment opportunities over the next year or two.

On the other hand, there is also a risk that the market may become dormant for an extended period of time, just like the Japanese market did in the 1990s, with weak market turnover and the financial sector trying to keep the market afloat by not taking its losses.

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