NEWSEC

NEWSEC PROPERTY OUTLOOK

AUTUMN 2014

THE FULL SERVICE PROPERTY HOUSE
IN NORTHERN EUROPE

CONTENTS

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EXECUTIVE SUMMARY

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The Nordic economies, and especially Sweden and Norway, have shown strong development in recent years. The region has stood out from the rest of the developed world with its strong macroeconomic fundamentals. Nordic property will be able to continue to generate attractive returns for well-informed investors. The market is now broad-based with high activity in relatively high-yielding segments. However, the investment cycle differs a lot between the Nordic economies, and detailed market knowledge will be more important than ever for both buyers and sellers of property in coming years.

THE NORDIC ECONOMIES – HIGH PERFORMERS IN AN INTERNATIONAL PERSPECTIVE

Total return on property has a strong correlation with GDP growth – with a correlation of almost 0.7 on the Swedish property market for the period 1992-2013 (where 1.0 represents a full linear relationship). The Swedish and Norwegian economies are relatively high performers in an international perspective, which will keep the total return on property high for the next few years. GDP growth is expected to be well in line with the USA during 2004-2016, averaging 2.8% in Sweden and 2.3% in Norway. While Finland has been severely affected by structural weaknesses and the sanctions on Russia, Denmark is currently a good way into recovery and GDP growth is expected to average 2% per year in 2014-2016. In addition, the Nordic property market is highly liquid in a European perspective, and in recent years has accounted for about 15-20% of the total European property turnover, a high level relative to the region's population which is only just over 5% of the total EU population.

HIGH MARKET ACTIVITY AND FALLING YIELDS IN SWEDEN AND NORWAY

In this economy the pricing of all types of asset – including stocks, bonds and property – has adjusted to today's historically cheap money. Both prime and secondary segments on the Swedish and Norwegian property markets are now starting to become rather highly priced. One way of measuring what phase in the investment cycle the market has reached is to look at the yield spread between prime and non-prime property segments. After adjusting for the extreme values of 2008, the yield spread between offices in Stockholm CBD and in prime suburban locations is strongly correlated with the spread between AAA and ABB rated US corporate bonds, with a one-year time lag. In other words, the corporate bond market works as a leading indicator for property in Sweden – a leading indicator that now predicts that transaction activity will intensify further in 2015 and yield spreads will keep on declining. However, property yields are much more inert than bond yields and there are still quite healthy margins between real interest rates and prime property yields.

IS NOW A GOOD OPPORTUNITY TO INVEST IN NORDIC PROPERTY?

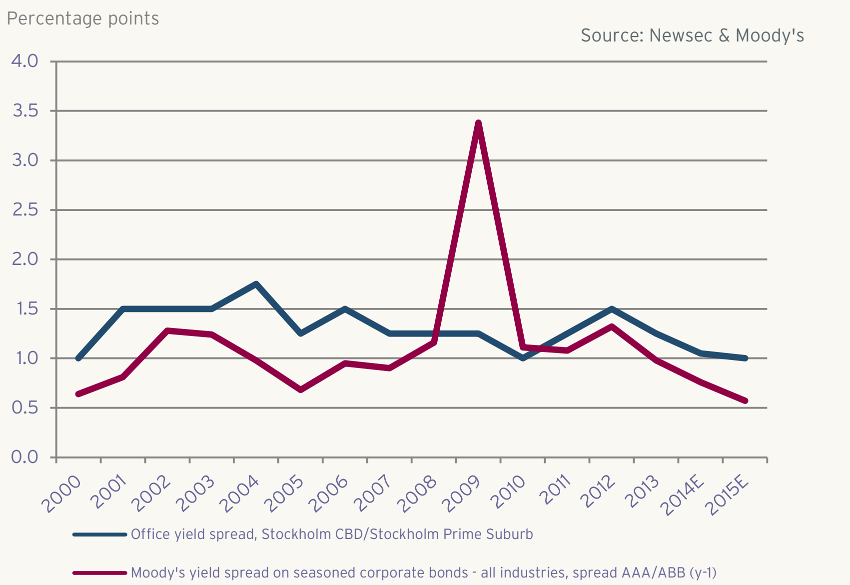
The property markets in Finland and Denmark are in entirely different positions in the investment cycle from those in Sweden and Norway. In Finland the investment market has just bottomed out and signs of recovery are starting to be visible on the property market, although the overall economic prospects still look quite bleak. The Copenhagen market has also slowly started to recover, although some positive growth on the demand side is still required before the market will recover fully. Yield spreads between prime and secondary segments are historically high on both the Finnish and Danish property markets. There are now good potentialities for investors to position themselves for a future pick-up in activity on the property markets and potential yield compression for high-quality properties in non-core segments.

In Sweden and Norway, however, the window of opportunity for property investors to 'ride the markets' is now quickly closing. Instead, property-specific factors are becoming crucial when making investments, and it is all about finding each property's potential for increasing rents and reducing vacancies. The second half of 2014 and 2015 will also be a good period for portfolio reallocations and disinvestments in secondary segments.

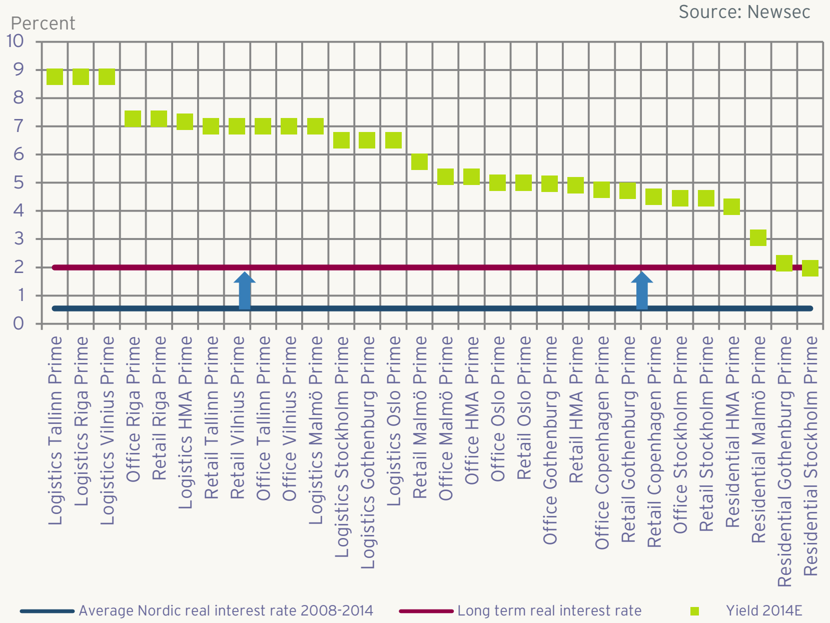
The essence of doing business on the property market is identifying the right strategy for each segment and property in each phase of the economic cycle – and we at Newsec know the whole Northern European market, from the macro perspective down to each local submarket and each specific property.

Stockholm September 12, 2014

Yield spread on Stockholm offices and US corporate bonds

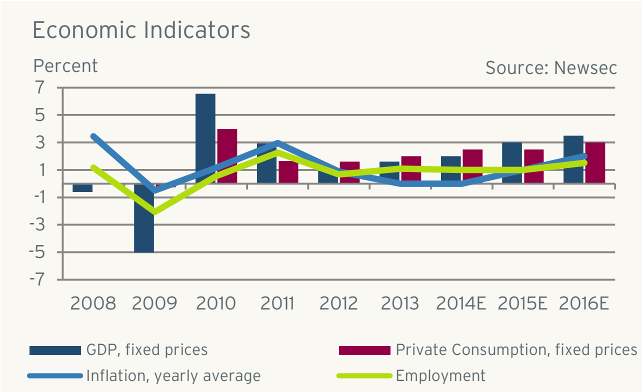


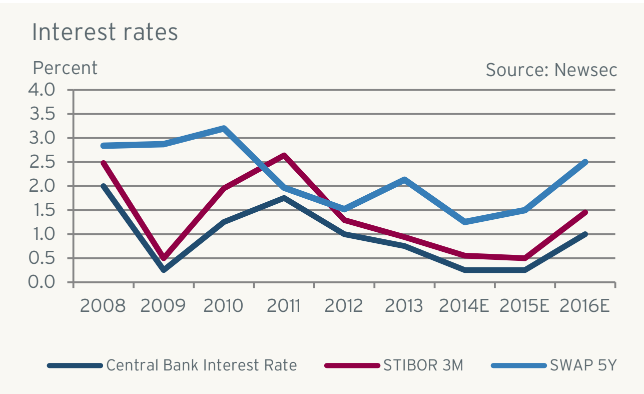
Yield



MACROECONOMIC DATA

SWEDEN





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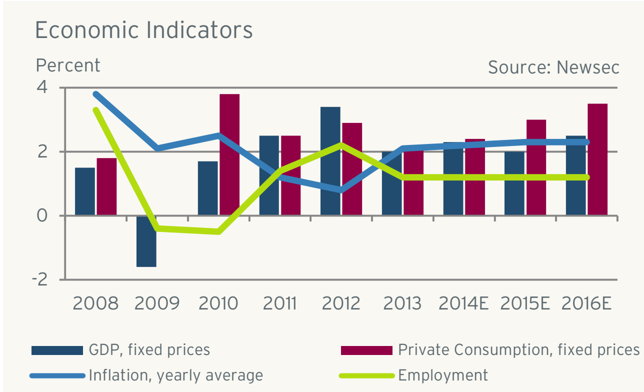

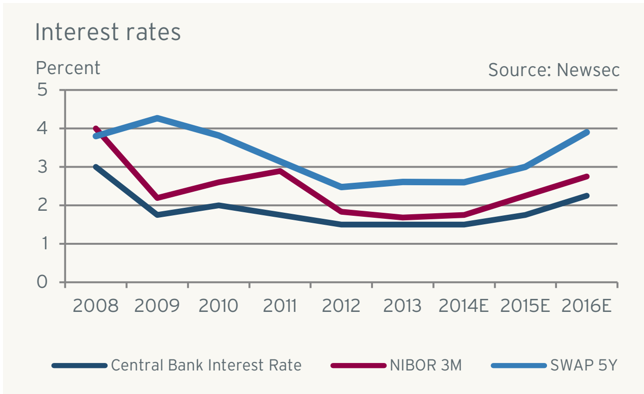

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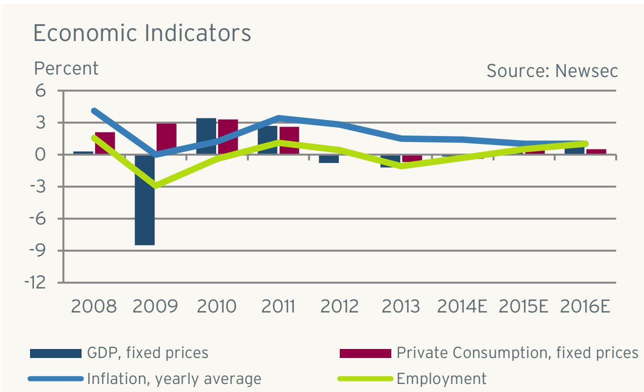

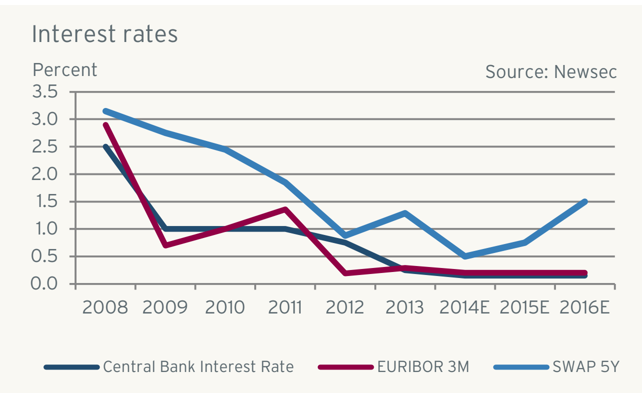

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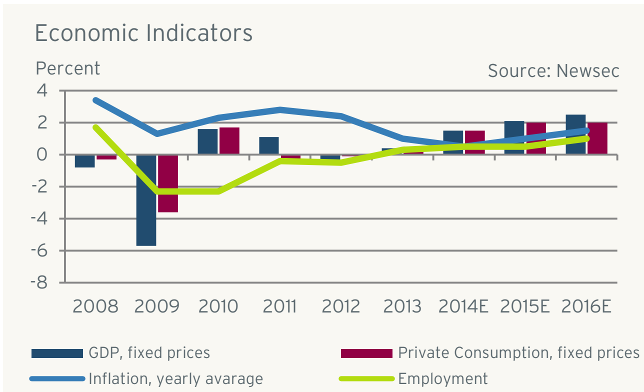

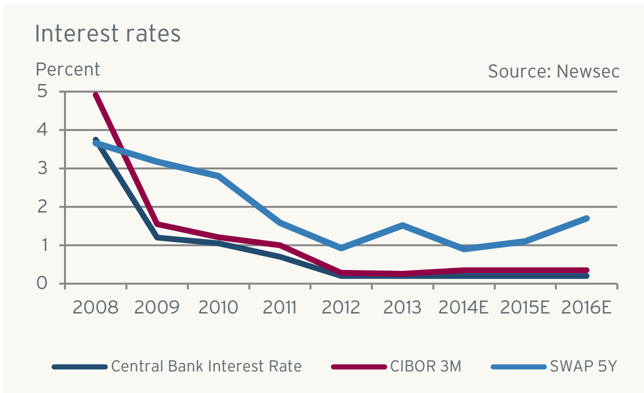

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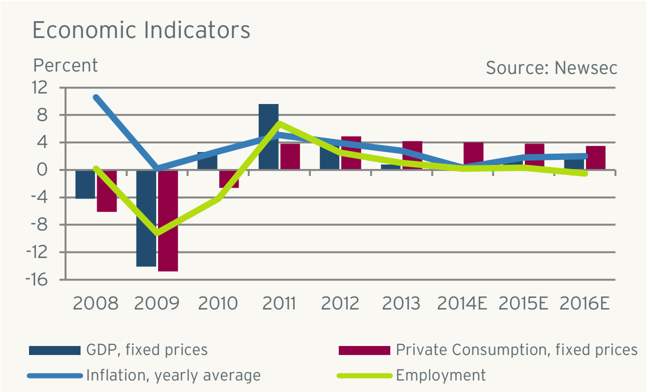

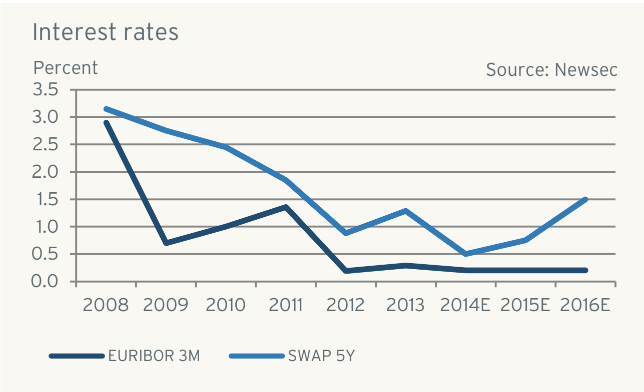

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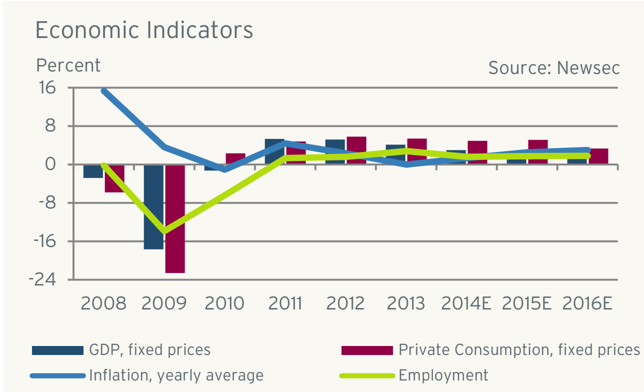

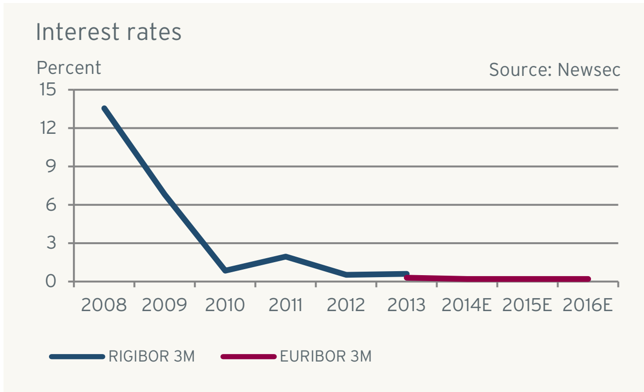

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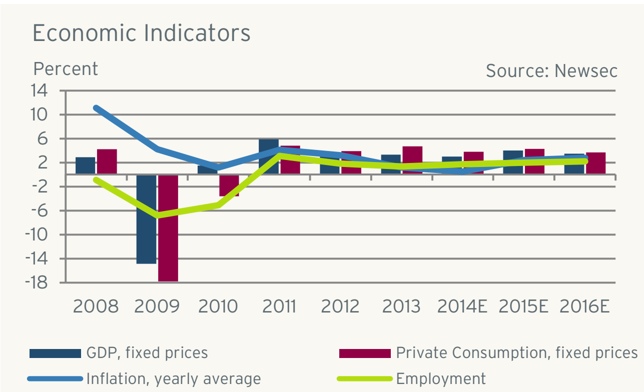

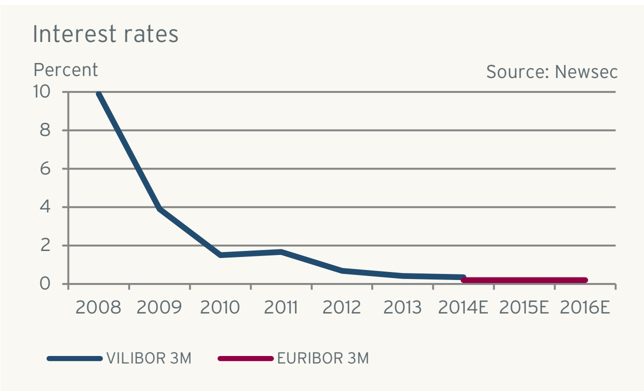

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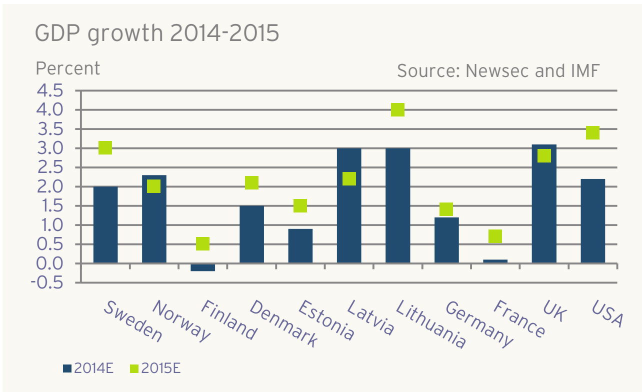
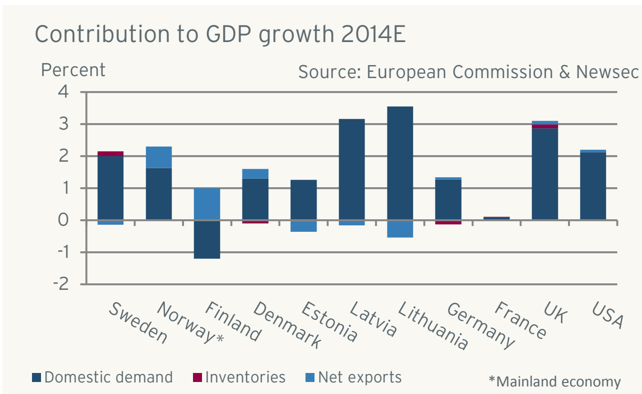
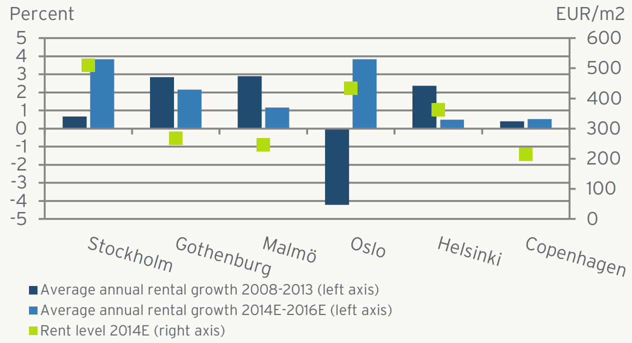




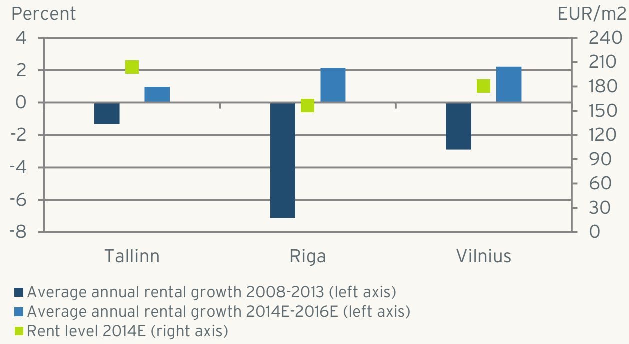
PROPERTY DATA

OFFICE RENTS

Prime Office Rents (CBD) | Nordic Region

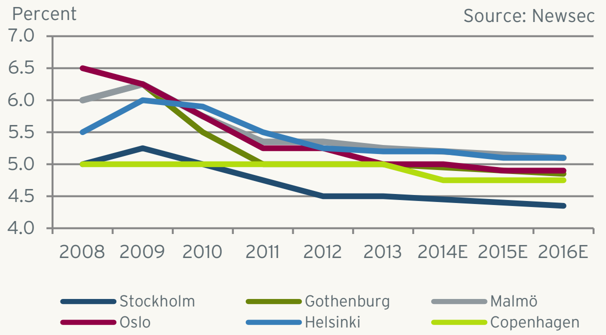


Prime Office Rents (CBD) | Baltic Region

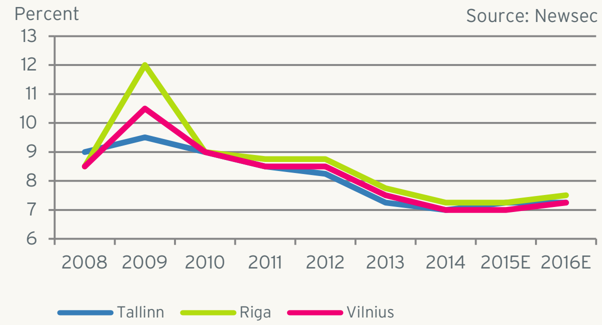


OFFICE YIELDS

Prime Office Yields | Nordic Region

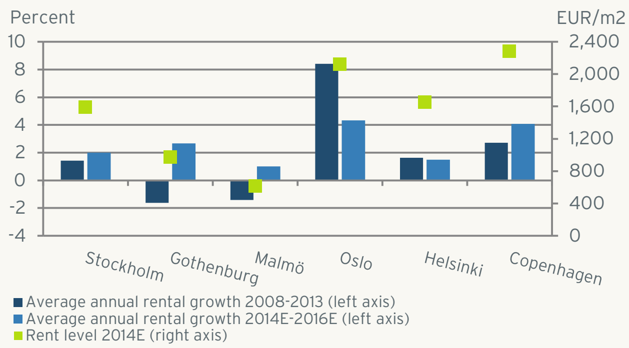


Prime Office Yields | Baltic Region

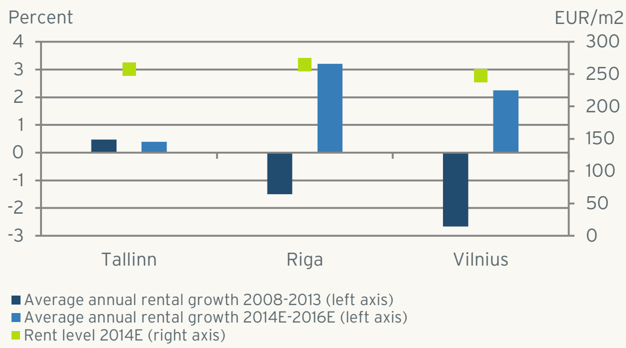


RETAIL RENTS

Prime Retail Rents | Nordic Region

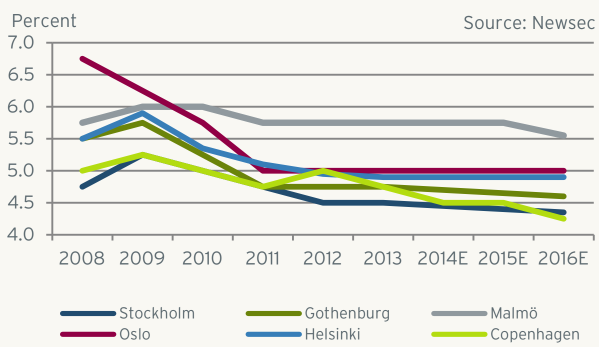


Prime Retail Rents | Baltic Region

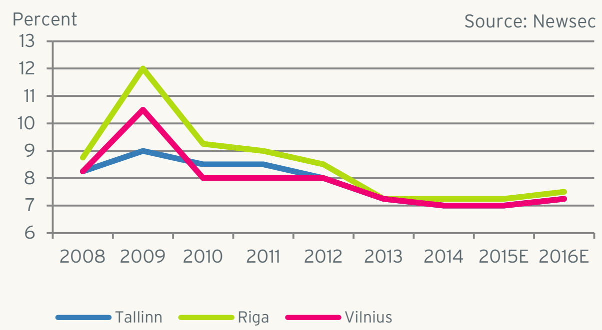


RETAIL YIELDS

Prime Retail Yields | Nordic Region

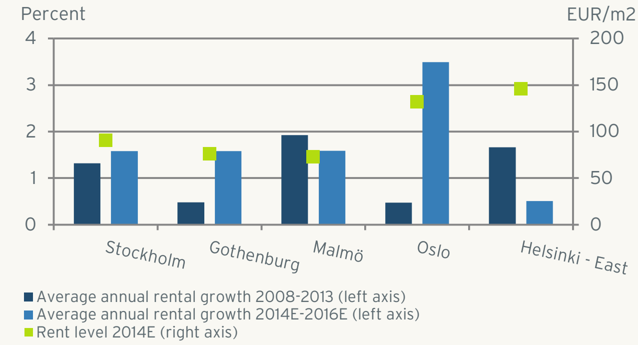


Prime Retail Yields | Baltic Region

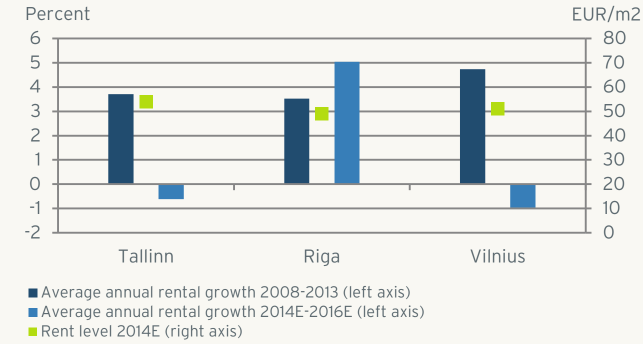


LOGISTICS RENTS

Prime Logistics Rents | Nordic Region

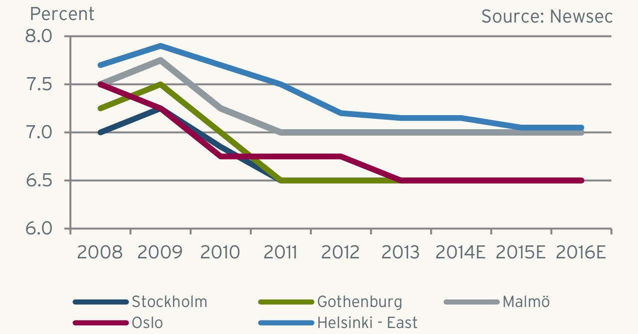


Prime Logistics Rents | Baltic Region



LOGISTICS YIELDS

Prime Logistics Yields | Nordic Region



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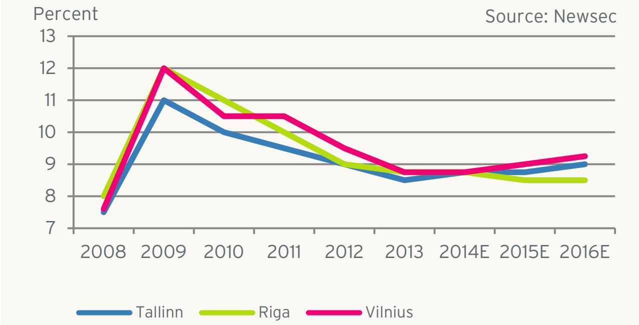
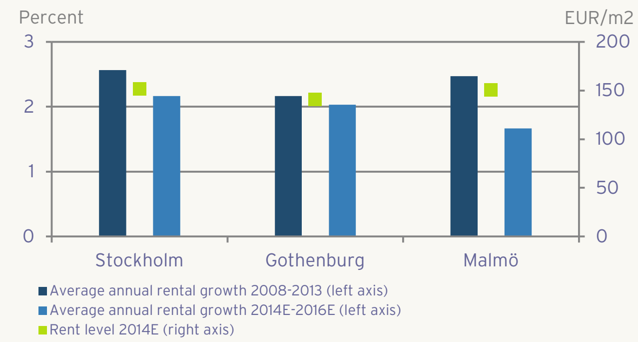
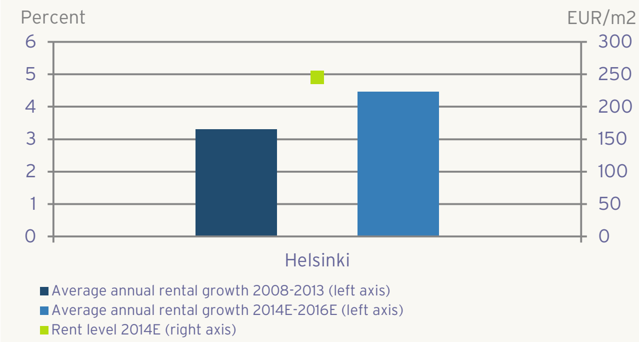


RESIDENTIAL RENTS

Residential Rents | Sweden

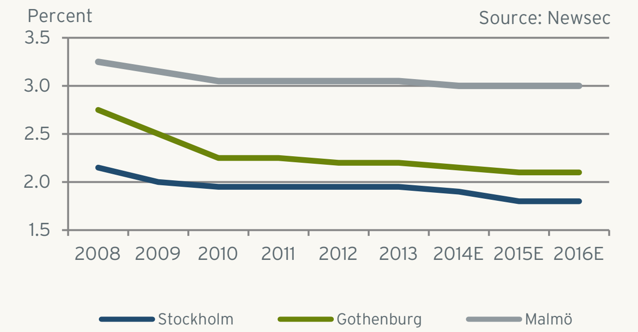


Prime Residential Rents | Finland

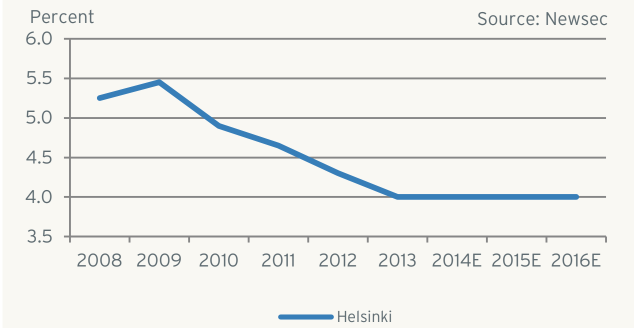


RESIDENTIAL YIELDS

Prime Residential Yields | Sweden



Prime Residential Yields | Finland



THE NORTHERN EUROPEAN REGION

Newsec's primary markets.

THE RECOVERY IS SHAKEN BUT STILL ONGOING

The economic recovery is continuing in spite of geopolitical tensions, sanctions against Russia and deflationary tendencies in the euro area. The USA is currently the most important global growth engine. After five years of weak growth, the US recovery is starting to get onto a firm footing with a markedly reduced fiscal drag, competitive energy prices and a recovering labour market. The private sector has reduced its indebtedness and the housing market has recovered, which supports private consumption, representing around 70% of the US economy.

The outlook in the euro area is much darker. The German economy has lost its momentum; the French economy is stagnating and has serious structural problems, while Italy is in a new recession. Finland has been severely affected by the Russian sanctions and is currently suffering a drawn-out recession. Long-term inflation expectations have fallen recently in the euro area, and there is now an outright risk of deflation. The ECB has therefore decreased its steering interest rate to a record-low 0.05% in combination with purchases of private-sector bonds.

The bright spots in the currency union come mainly from the Mediterranean region and especially Spain, which has returned to growth even though 25% of its labour force still stands unemployed.

The BRICS countries – Brazil, Russia, India, China and South Africa – have slowed down significantly in recent years. Except in Russia, where the sanctions are putting pressure on growth, structural weaknesses and dependence on foreign capital are the main points of vulnerability. Growth in China has also slowed because the politically controlled economy has started a rebalancing process towards consumption and services. Growth has been propelled by investment during recent years, and in the last five years total debt has increased by over 70% of GDP to 230% – a credit build-up that has probably generated wasteful investments, especially in the housing and infrastructure segments, and thereby also created a risk of future non-performing loans and turbulence on the financial market. Even though the economy remains unbalanced and inefficient, however, growth is still strong in an international perspective and China will continue to be an important global growth-engine.

"Monetary policy is expected to remain extraordinarily expansive throughout 2014-2016"

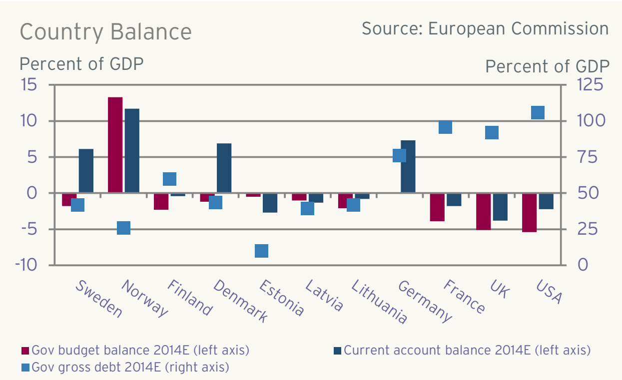
ARE CHEAP MONEY AND MONETARY STIMULATIONS CREATING ASSET BUBBLES?

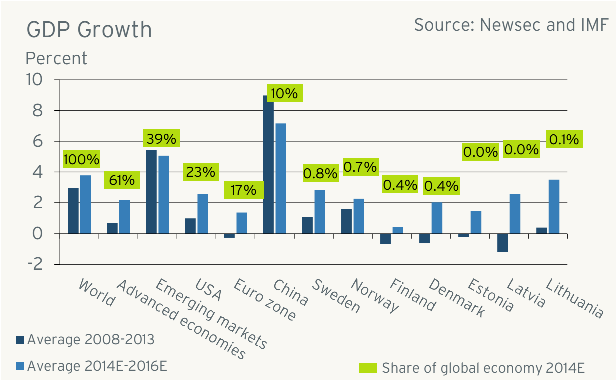
Real interest rates have followed a declining trend since the early 1980s, and decreasing yields have been an important driver of stock, bond and property prices alike. Since the financial crises, growth and employment have been stimulated through extremely expansionary monetary policies, and the balance sheets of the major central banks have ballooned. Despite this, global competition has reduced inflation pressure, and inflation is currently at dangerously low levels in the euro area.

The Federal Reserve and the ECB are in entirely different positions. Since the recovery is well on its way in the US, the Federal Reserve has started to taper its asset purchases, its balance sheet is expected to stop growing in October 2014, and it is expected to start to increase interest rates by mid-2015. The ECB on the other hand needs to handle a stagnant economy on the verge of deflation and is thereby expanding its monetary stimulation. In addition its overall monetary policy is expected to remain extraordinarily expansive throughout 2014-2016.

So far during 2014 long-term interest rates have fallen back to all-time low levels. Low inflation and moderate growth will continue to keep interest rates low in Europe for the coming 12-18 months.

However, several factors are indicating that we are now close to the interest-rate bottom. First, the recovering US economy and looming Federal Reserve tightening are expected to push the entire yield-curve upward and also lead to an upward pressure on European interest rates. Second, there are also structural factors that point towards a gradual rise in interest rates. Many of the largest multinational companies have underinvested for years and now have large low-yielding cash piles waiting to be set to work as investors' confidence in the real economy improves. On a macro level the western economies have also underinvested for decades, which is especially obvious in the infrastructure segment. Simultaneously,





"The pricing of all types of asset has adjusted to today´s historically cheap money"

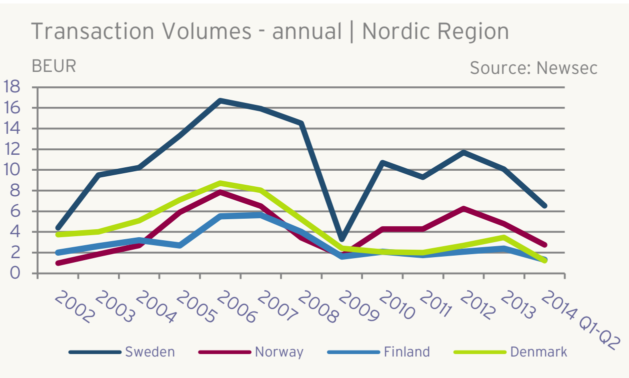
declining current-account surpluses in the emerging economies are generating a situation where a larger share of their savings is channelled into much-needed domestic investments instead of into western consumption. However, weak growth potential and low inflation pressure will slow down the process and keep long-term interest rates at historically low levels for several years ahead. Newsec's main macroeconomic scenario indicates that the yield on Nordic five-year government bonds will increase to about 2-3% in 2017.

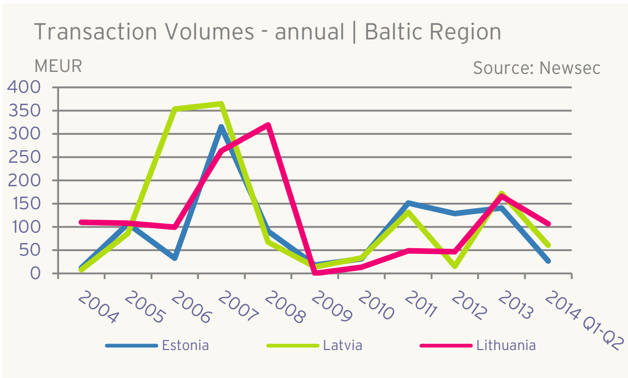
The pricing of all types of asset – including stocks, bonds and property – has adjusted to today's historically cheap money. The result has been a strong total return due to falling yield requirements, especially for high-risk assets. Since early 2013, various structured products have returned to the financial markets, especially in the USA and Europe, with a significant increase in issues of asset-backed securities and a strong demand from yield-hungry investors. Spreads between high-rated and low-rated bonds have also declined markedly in recent years, and have now sunk below pre-financial-crises levels to the levels of the late 1990s. Newsec's view is that tightening monetary policies and higher long-term interest rates will result in asset price adjustments and deteriorating market sentiment in a medium-term perspective – which will lay the ground for a new global downturn in 3-5 years' time.

STRONG GROWTH POTENTIALS IN THE NORDICS

The Nordic economies, and especially Sweden and Norway, have shown strong development during recent years. The region has stood out from the rest of the developed world with its strong macroeconomic fundamentals. Low sovereign debt, transparent economies, a well consolidated banking system and consumers with sound personal finances produce a combination of stability and growth potentialities. In addition, the Nordic property market is highly liquid in a European perspective, and in recent years has accounted for about 15-20% of the total European property turnover, a high level relative to the region's population which is only just over 5% of the total EU population.

Norway has its buoyant oil and gas sector, although falling investment volumes in the petroleum sector will be a drag on growth in years to come. However, unemployment is extremely low, and wage growth and private consumption are strong. There has also been a firm pick-up in exports outside the oil and gas sector. In Sweden, despite the large export sector, the economy has shown a strong resilience towards a sluggish global economy, with stable employment and wage growth. Net exports are currently having a negative impact on GDP, which will make private consumption the main driver until an expected pick-up in export demand in 2015-2016. Norway, Sweden and Denmark all have large current-account surpluses in the range 5-15% of GDP, while Finland's balance during recent years has moved from strongly positive to slightly negative. Although Finland has a large export industry, growth is hampered by the current Russian sanctions as well as an ageing population and long-term





"GDP growth, especially in Sweden and Norway, has been resilient throughout the unsecure economic environment"

structural difficulties, especially in the large telecommunications, shipbuilding and forestry sectors. Denmark has a relatively non-cyclical export industry. The country is currently recovering from the housing-price bubble of previous years, and private consumption is recovering gradually.

GDP growth, especially in Sweden and Norway, has been resilient throughout the unsecure economic environment of recent years, and domestic demand has been an important growth engine when export demand has been weak. The main factor that adds insecurity is the countries' large dependence on exports – around half the Nordic GDP consists of exports, of which a large proportion goes to the EU. However, net exports are expected to make a positive contribution to GDP from 2015 onwards.

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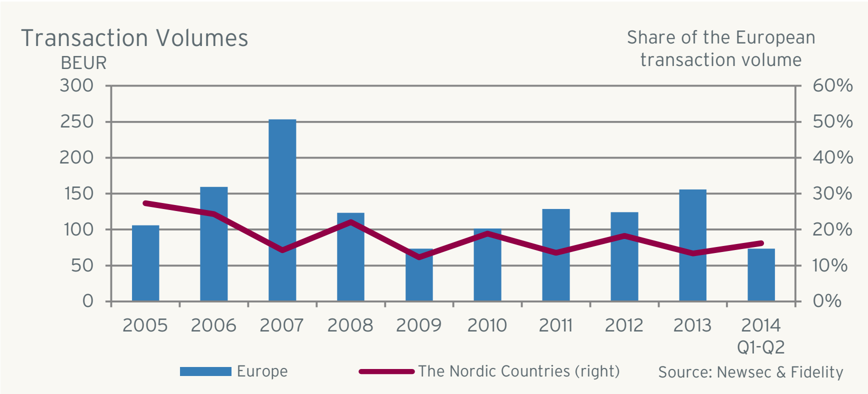
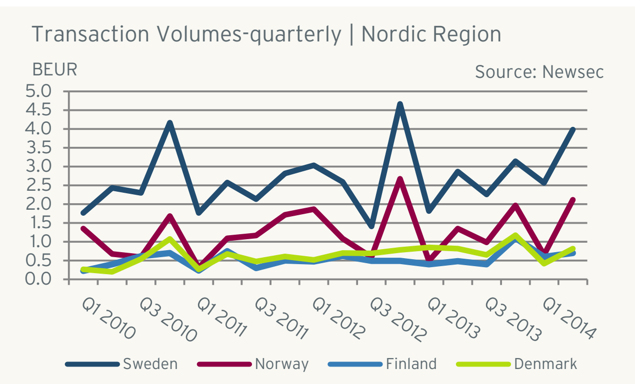
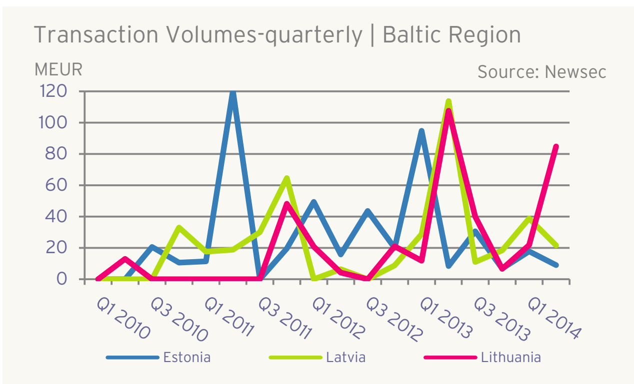






SWEDEN
- TOWARDS AN INTENSE PHASE IN THE INVESTMENT CYCLE

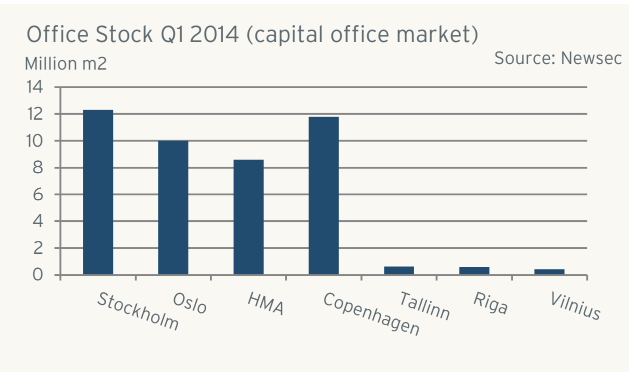
The investment market
The Swedish property market started 2014 with the highest transaction volume for January since Newsec's first records in 2005, ending at SEK 10.5 billion. February was then weaker, with a larger number of deals but a lower value. With a strong recovery in volume from March onwards the first half-year ended at a total volume of almost SEK 60 billion, which is SEK 17 billion above last year's result. June alone produced the highest volume since 2006 with a value of SEK 24.6 billion. There have also been a larger total number of transactions in the first half-year, a 30% increase compared with 2013.

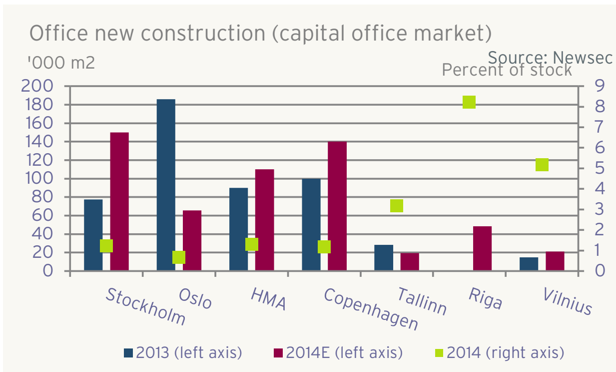
The Swedish institutions, which have dominated the market in previous years, have been relatively inactive on the market so far this year. The biggest investors continue to be both private and listed property companies, largely due to positive growth on the stock market and better access to bank financing and the corporate bond market. Alternative funding has become more common, especially among listed property investors. The interest rate is expected to continue at a low level for some time, which will sustain the current trend for alternative funding. During the past year several Swedish real estate companies have been listed on the stock exchange including Hemfosa, Besqab and D. Carnegie & Co, and further more are planning to be listed in the coming year.

There is a large interest in property segments outside prime locations and in fast-growing regional cities. However, investor activities in the three major cities have increased compared with the same period in 2013. Two of the five largest transactions during 2014 took place in the Stockholm area but neither was located in the CBD. The largest was the deal between Carlyle and Klövern for the office/retail area Globen City. The property was sold for SEK 3.8 billion in January. The second deal was for Trygg Hansa Huset on Kungsholmen, which was sold by Trygg Hansa to Areim for SEK 2.35 billion.

In Gothenburg CBD locally strong players have dominated the transaction market. There have been two major transactions in Gothenburg, both located outside the city. The larger was the sale of several office and industrial properties owned by Volvo and mostly located in Torslanda. The portfolio was sold for SEK 1.8 billion. The other deal was the aquistition of the new SCA huset located in Mölndal. The property was sold by NCC to Stena Fastigheter for SEK 868 million and will be ready in 2016. There has also been one CBD deal in Malmö during the year, when Atrium Ljungberg invested about SEK 265 million in a public/office property sold by Profi.

Even though volume has declined in the regional cities and the rest of Sweden compared to the same period in 2013, there is still an interest in these markets and the total transaction volume is higher than for either Gothenburg or Malmö. There have also been several large deals in secondary office locations, as well as transactions in





"The fundamentally strong Swedish economy continues to make the Swedish real estate market attractive to international investors"

retail and logistic portfolios scattered throughout Sweden. In June the Olav Thon Group invested in a retail portfolio including five shopping centres located in five different cities throughout Sweden. The portfolio was sold by Steen & Ström for SEK 3.25 billion.

The dominant segment during 2014 has been office properties, with almost 30% of the invested volume. Residential properties are the second-largest segment. The largest transaction of the first half-year was between Obligo and D. Carnegie & Co for a portfolio including residential properties throughout Sweden and valued at SEK 6.56 billion.

Foreign investors have made some significant investments during the year, mostly in the office and retail segments, and have increased their presence on the Swedish market. The foreign share in the first half of 2014 totalled almost 15%, compared to 8% for the same period of 2013. This is mainly due to large investments in the second quarter. The two largest foreign transactions during the first half year were made by the Olav Thon Group, as mentioned above, and by Invesco Real Estate, which bought part of Entré Lindhagen on Kungsholmen from Skanska for SEK 1 billion. Skanska has just recently sold the remaining part to Alecta for SEK 1.7 billion. The number of foreign investors has been low in recent years, largely due to a strong currency and internationally low yields. Low interest rates have also made it easier for Swedish investors to acquire financing, which has led to many high-volume investments this year. However, the fundamentally strong Swedish economy and a highly liquid and transparent market continue to make the Swedish real estate market attractive to international investors.

The key market trends can be summarised as follows:

1. Increasing transaction volume
2. Falling yield spread between prime and secondary segments
3. Increasing foreign interest in the market

The office market
Newsec estimates the total office stock in Greater Stockholm at approximately 12 million m², with the main office areas located in the municipalities of Stockholm, Solna, Sundbyberg, Nacka, Sollentuna, Järfälla, Danderyd and Upplands Väsby. Stockholm CBD is considered to be the most attractive office area, with a total stock of about 1.9 million m², while Stockholm Inner City excluding the CBD has an office stock of about 4.3 million m². However, many larger companies are relocating to new office space outside the Inner City. In the first two quarters new office projects totalling about 100,000 m² have been completed, most of which is fully let. The forecasted final figure for 2014 is 150,000 m². Looking further ahead, new-production plans in Greater Stockholm add up to almost 3 million m² of office space, mostly concentrated in Solna, Hagastaden, Kista, Stockholm Inner City and Sundbyberg. For a large proportion of these plans, however, the start of building lies several years ahead.

Over a short period of time the construction of new office space in the Stockholm area has changed dramatically, and is now focused on specific clusters in municipalities outside Stockholm. Many of these areas are located in northern Stockholm, which has fast and nearby communications to both the Inner City and Arlanda airport. Recent decisions to expand the infrastructure and public transport will create new opportunities for developers. The new metro lines and stations will have an especially positive effect since they shorten travel times and make new development attractive. Two such areas that will strongly benefit from improved communications are Hagastaden and Arenastaden where two of Stockholm's largest urban development projects are currently under construction.

There are few speculative projects scheduled for completion in the next few years. However, Fabege's Scandinavia Office Building in Arenastaden and Skanska's Stockholm New in Hammarby Sjöstad are two such projects. The Scandinavia Office Building is planned to be completed in autumn 2015 and was recently fully let to TeliaSonera. Construction of Stockholm New is planned to start in 2014 and will provide 80,000 m² of office space. Skanska has announced no lettings yet.

In the past half-year several large relocations have greatly reduced leased

> "This prevailing low vacancy level has led to a number of new development and rebuilding projects in, or adjoining, the CBD"

space in Stockholm CBD. Many of these have meant co-locating several offices and setting up new operations in the inner suburbs. Swedbank moved earlier this year to its new office in Sundbyberg and SEB recently signed a 20-year contract for 67, 500 m^2 of office space in Arenastaden. Skanska's move to västra Kungsholmen was another major move this year which left 36,000 m^2 vacant in Commerz Real's Solna Port.

Since many of the vacated buildings will be renovated or rebuilt before returning to the market there has been a shortage of available office space in Stockholm CBD, which together with a growing service sector has resulted in today's low vacancy rate of about 4%. This prevailing low vacancy level has led to a number of new development and rebuilding projects in, or adjoining, the CBD. One notable rebuilding project is Gallerian, where AMF has big plans for Swedbank's old premises. Vasakronan is also planning a total refurbishment of Klara C. The property will be renovated and modernised and put on the market again in 2016. Mästerhuset will be finished in late 2015 and will comprise 30,500 m^2 of office and retail space.

Future relocations and refurbishments have not yet affected the vacancy rate, since many moves will take place during the next two years when new projects are being finalised. Following the completion of several CBD projects the expected vacancy rate for 2016 is about 5.5%.

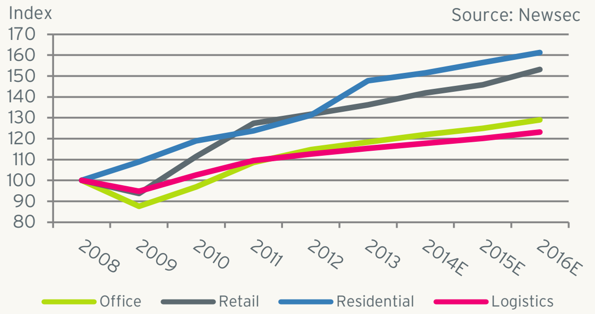
The rent level in newly renovated and space-efficient properties in Stockholm CBD is SEK 4500 per m^2. Newsec expects the market rent to rise to SEK 4700 per m^2 by the end of the year. This is the result of the small supply of office space in the CBD during the next few years until new developments and refurbishments reach the market, as well as the high demand for new and modernised premises. The rise in market rent is expected to continue into 2016.

Space efficiency and lower costs are two of the main reasons for relocations, but factors like a changing business environment, mobility and a good working environment have also become more important. Recent decisions about strengthening and expanding the infrastructure will become central for the development of Stockholm, as opportunities and the ability to attract people are linked to good infrastructure. Stockholm is more or less divided into two areas, with a large proportion of offices located in the north. The new Citybanan rail line will have a positive impact on the office area of Västra City (the project name for a densification around and over the tracks along Klara Sjö) when it is ready in 2017. The new line will increase passenger capacity through the inner city, with two new stations at T centralen and Odenplan. The property sector's impact on the environment is also becoming increasingly important to both investors and tenants, and the majority of future construction projects are expected to be environmentally certified.

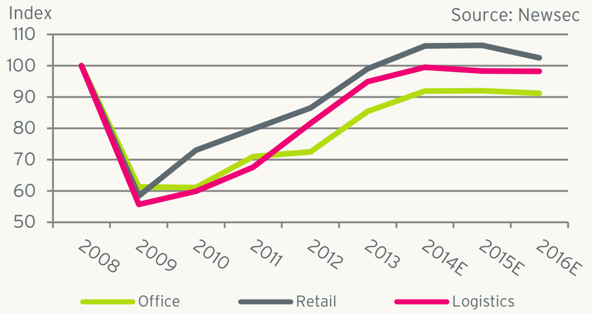
The retail market

Retail trade in Sweden is showing positive growth. Swedish households are

Property Capital Growth Index | Nordic Region



Property Capital Growth Index | Baltic Region



"Durables will have a positive growth while the growth rate for convenience goods is forecast to fall slightly"

well consolidated financially, and the sluggish global economy will continue to make domestic demand an important growth engine for the Nordic region in coming years. Continuously low interest rates and a stable labour market with rising wages are the reasons for the positive growth that is expected to continue to boost household consumption during 2014 and 2015.

In the last half-year there has been a shift between durables and convenience goods. Durables will have a positive growth while the growth rate for convenience goods is forecast to fall slightly. This is a strong indicator that the market is on its way out of a recession.

The population of Stockholm is growing fast, and ongoing urbanisation will heavily affect demand in all the major cities. The population of Stockholm is expected to grow by 1.6% per year up to 2022 (35,000 to 40,000 people per year). However, competition is fierce between different types of shopping destinations, which make factors like the location and quality of premises increasingly important in attracting consumers and tenants.

There have been several retail deals during the first two quarters of the year. The two largest by far are the Olav Thon Group´s acquisition of five retail centres for SEK 3.25 billion and the acquisition of 54 retail properties by Trophi. The portfolio was sold by a fund managed by CBRE Global Investors for SEK 1.2 billion.

Planned new retail development in Stockholm Inner City is expected to be almost 70,000 m² from 2014 and onwards. For Greater Stockholm the figure is expected to be 575,000 m².

The largest retail project is Mall of Scandinavia in Arenastaden, being developed by Unibail-Rodamco. The Mall will provide 100,000 m² and is expected to be ready in 2015. A general urban development project in Stockholm is Söderstaden, located adjacent to Globen, where Ikano has plans to build a new retail centre. The centre is planned to be 100 000 m2 and would include the first IKEA in Stockholm City. In Greater Gothenburg there are plans for developing approximately 360,000 m², which equals more than 50% of the existing retail stock. New development in Greater Malmö is expected to be lower, about 120,000 m². This is mainly because several large projects have been finished during the last two years.

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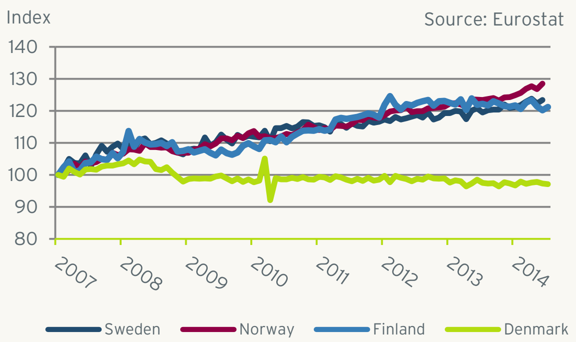
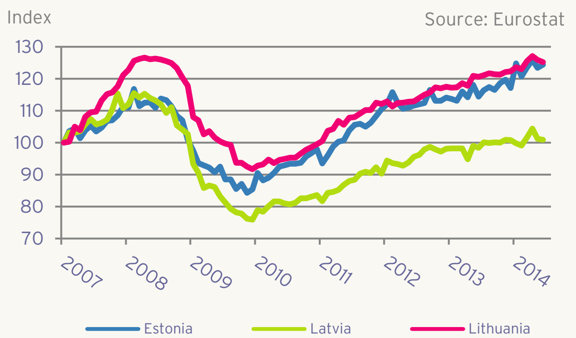
Retail Trade Turnover-monthly | Nordic Region



Retail Trade Turnover-monthly | Baltic Region



NORWAY - THE STRONG DEVELOPMENT CONTINUES

The investment market

The market was relatively quiet in early 2014, with few major transactions, but we are now seeing considerable activity. The transaction volume so far this year is just above NOK 20 billion and our expectation for the full year (excluding the sale of the state-owned property company Entra) is a figure of NOK 50 billion. Office transactions account for 42% of property sales so far this year, which is slightly lower than previously. The transaction market is aided by attractive bank margins and loan-giving by banks, and by more available equity. A continuing trend is that selling processes are 'narrower', with many properties presented off-market.

There is a high demand for centrally located property in Oslo, but we are still finding that this type of property requires such low yields to change hands that potential buyers are forced to look for other locations. Because of this not many properties are being bought and sold in the city.

The banking market is currently perceived as helpful to estate agents. Margins have fallen to low levels and banks have become far more willing to help with financing. It is also of great importance for liquidity in the transaction market that they are now more willing to finance projects located slightly out of the city centre and with relatively short-maturity tenancy contracts. The yield spread is therefore falling between prime and secondary property segments.

Norwegian investors have accounted for the largest activity on the transaction market, but the rising activity of foreign players confirms that Norway's property market is now attractive in an international perspective. Syndicates have been the largest net buyer so far this year, while private individuals and pension funds are still selling. It is also worth noting that foreigners are buying properties in Norway, while very few foreigners are selling.

Have we now reached a peak? We think not. From a historical perspective rents are not particularly high and bank margins were lower earlier. In a market with reduced interest rates the property market appears as a good investment choice. We believe the good times will continue for a few more years, and we expect to see individual buildings traded at yields under 5% this year.

The key market trends can be summarised as follows:

1. The positive trend on the financing market is continuing
2. Increased transaction willingness
3. Increasingly attractive market for foreign buyers

The office market

After a rather depressed first quarter we have seen a significant change of pace and encouraging indicators of future activity. The premises sought after have also been larger, many between 2,000 and 4,000 m^2 and a good number between 4,000 and 15,000 m^2.

Meanwhile, however, the rental market was weaker than expected in the second quarter. The average in Oslo is now NOK 1,920 per m^2 and is expected to keep on increasing in 2014-2015. However, no landlords are rejoicing in the positive rental development, which is probably stimulated by the investment needs behind each new lease. We are finding that businesses are sceptical regarding the area they need, and discerning about the quality. Presumably tenants want to see profitability actually materialise before they lease larger premises. There are, however, no signs that tenants in Oslo are subletting space to any appreciable extent, which indicates a healthy market.

Construction activity remains low. Just 65,600 m^2 of new office space is due to be completed in 2014. The largest buildings are Ullern Panorama and the Yara headquarters at Skøyen. Newly completed this quarter is Sandviksveien 147, an office building of 2,500 m^2 along the E18 from Sandvika. A further 120,000 m^2 of office space is due to be completed in 2015. New office buildings scheduled for 2016 total 60,000 m^2.

Our vacancy assessment in late June showed a vacancy level of about 8.5% in Oslo, Asker and Bærum and vacant office space of about 850,000 m^2 in Greater Oslo. When the overall vacancy is broken down by submarket, we see major differences between the districts. Central areas are still low and stable, and the Inner City in particular fell significantly this quarter, while Lysaker is

> “We have seen a significant change of pace and encouraging indicators of future activity on the rental market”

now rising again. Newsec expects vacancies to keep on declining to 7.5% by 2016. However, it will take time to absorb the available space in all areas. A somewhat weaker labour market and lower net absorption were the main arguments.

The retail market

Despite strong fundamentals in the Norwegian economy, the retail market has had a relatively sluggish development during recent years due to growing competition from e-commerce and a few strong shopping centres. Market rents have started to fall for retail properties with moderately good locations and strong competition. There have been few major transactions in this segment in Norway. Instead Olav Thon made a large portfolio acquisition in Sweden from Steen & Strøm. Two smaller retail properties have also changed hands in central Oslo at yields just over 6%.

In recent years there has been a large consolidation in the retail segment. Newsec believes that the biggest consolidation has now come to an end – and it is now possible to divide shopping-centre investors into five major groups:

1. Olav Thon and Sector; these investors own multiple centres, which provide good negotiating power. Amfi and Olav Thon account for nearly half of all sales in the nation's shopping centres.
2. Pension funds; these investors generally own a few large centres in good locations. Storebrand, KLP and DNB own the major centres at strategic locations. In addition, DNB is developing shopping centres along with NHP in Oslo and Trondheim.
3. Property funds; these investors own shopping centres as part of a diversification strategy. Most property funds made their investments when their fund structures were created in 2006-2007. Typically each fund owns a few medium-sized shopping centres. The exception is the Solsiden centre in Trondheim where Sector is engaged in retail areas.
4. Developers; these investors are big in their local markets and are looking for the development potential of their shopping centres. Salto and Scala with financially strong owners are in this category.
5. Real estate companies; these investors have defined targets and are point-oriented in their investment strategies.

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FINLAND - SIGNS OF RECOVERY

The investment market
The total volume of property transactions on the Finnish market in the first half of 2014 was about EUR 1.3 billion. This represents an increase of 50% over the figure of EUR 0.86 billion in the same period in 2013. The second half of 2014 is likely to be even more active. Our forecast is that the total volume of property transactions in 2014 will amount to EUR 4 billion, which is EUR 1.5 billion more than last year. A similar increase in market activity has been seen in the rest of Europe. Investors have become more interested in investing in property because the profit from other types of investment has been relatively precarious. Property profits have appeared appealing, but at the same time the selection criteria for property investments have had to be strict.

There has been a significant change in the allocation of investments made by property investors. The market share taken by public properties continued to grow during the first half of 2014 and has now reached 15% of all property transactions. The segment started to grow in 2011 and has developed ever since. The significant transaction involving Trevian Asset Management, which sold a single portfolio of 15 care homes for about EUR 100 million to Hemsö Fastighets of Sweden, is the main reason for the record share taken by public property transactions this year, and the share is expected to fall back a little in the second half of 2014. From an international viewpoint the share of public property investments in Finland is relatively high.

The market for logistics properties has improved and their share is likely to grow in the second half of 2014. In April a new property investment company, Certeum Ltd, which will specialise in logistics and industrial properties, was formed as the result of a EUR 920 million deal between property investment company Sponda and Varma Mutual Pension Insurance Company. In the Helsinki Metropolitan Area there has been a trend of logistics properties moving further away from the city centre. Many logistics arrangements have been redesigned as a result of steadily increasing costs caused, for example, by the international Sulphur Directive, which requires ships using the Baltic to use cleaner and more expensive fuel. E-commerce is also likely to affect the market for logistics properties. The combination of problems in exporting and importing, a fall in trade activity and an increase in logistics costs have led to a rise in vacancy rates in some submarkets.

In 2013 almost 30% of property transactions were residential portfolios, and the residential property investment market has remained relatively active in 2014. The residential market is predicted to continue active for the rest of the year since the new residential investment funds have increased its popularity and created opportunities for investors to invest more. Even though the increase in residential rents has slowed down, rent levels are still quite high, especially for smaller apartments.

Finnish institutional investors have decreased their direct real estate investments in Finland since the autumn of 2013, and their share of transaction volume has dropped from 26% to 2% in just two years. Despite this dramatic reduction, institutional investors have been actively establishing new property funds, and domestic property funds' share of total market volume has increased from 10% to 34% in the last few years.

International property investors have significantly increased their investments in the Finnish commercial property markets, and more than half of the property transactions done in Finland in 2014 have involved an international investor. The biggest group of international investors has been Swedish. As well as Hemsö Fastighets' purchase of 15 care homes mentioned above, the Swedish investor Trophi bought a portfolio of five grocery stores in the capital-city area from HOK-Elanto. However, the most notable transaction made in the first quarter of 2014 was the sale of Sanoma's headquarters office in Helsinki CBD to the property fund of Deka Immobilien of Germany for EUR 176 million. Sanoma Ltd has also sold its industrial and production properties.

The key market trends can be summarised as follows:

1. Slowly increasing transaction activity

"The large amount of empty space in the Helsinki Metropolitan Area continues to favour the tenant"

2. Continuously high yield spreads
3. Increasing foreign interest in the market

The office market
The share of the real-estate investment market taken by office and retail properties is decreasing. Traditionally their combined market share has been between 60% and 70%, but in 2014 the share is expected to fall to about 50-60%. In the office property segment the sellers have usually been owner-user companies selling the properties they occupy in order to free capital for other uses.

For those seeking premises, the large amount of empty space in the Helsinki Metropolitan Area continues to favour the tenant, and the incentives offered when negotiating leases (e.g. rent-free months) have increased. Space-efficiency is one of the key features sought by tenants and carries a premium rent. There is a stable demand for prime offices in Finland. In other areas the changes in rent levels are expected to be moderate.

The retail market
As Trophi's purchase of a grocery store portfolio from HOK-Elanto indicates, the retail segment currently remains attractive to cross-border investors.

Looking ahead, expected low private consumption is expected to slow down retail sales, while retail investments are expected to fall to near zero. At the moment, the crisis in Ukraine is affecting only certain segments of the real estate market. For example the number of transactions in the housing and commercial segments has decreased and the credit ratings of companies that rely substantially on Russian imports have been lowered. However, the political tensions have not yet had an effect on prices in Finnish property markets apart from a few exceptions such as business sites and development projects that rely heavily on Russian tourists and the border trade. As the risks and uncertainty grow, the yields of development projects especially have increased. The varying demand for the rouble and Finland's weak economic growth are usually already taken into account in the pricing of the projects.

It seems that the international investors are not concerned that the risk will escalate in Finland and affect the investment markets except as regards the country's general economic growth.

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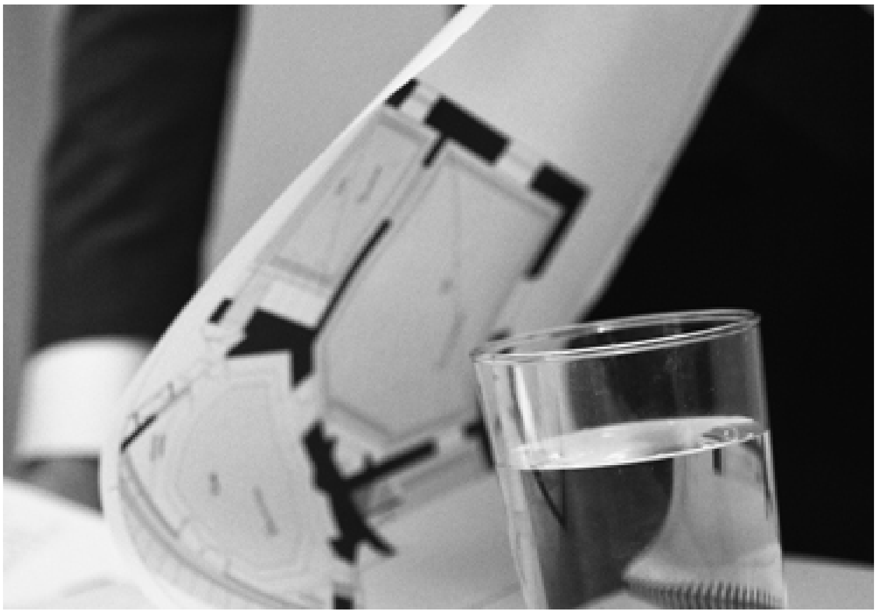

DENMARK - INCREASING MARKET ACTIVITY

The investment market

The Danish economy started 2014 well with growth of 0.9% in Q1, and the release of the latest macroeconomic key indicators suggests that the country's economic prosperity will continue. However, this has not yet been reflected in the total transaction volume, which in the first six months is estimated at DKK 9.2 billion. Compared with the same period in 2013, this is a drop of 7%. However, the picture changes when considering the office investment market. The transaction volume in the Copenhagen office investment market in the first six months of 2014 is estimated at DKK 2.5 billion, which is approximately twice as high as in the same period in 2013. This indicates that the office investment market in Copenhagen has slowly started to recover, although some positive growth on the demand side is still required before the market will recover fully. Since transaction activity is normally higher in the second half of the year, it is expected that demand will pick up in the next six months and that 2014 will reach at least the level of last year.

The key market trends can be summarised as follows:

1. Stable transaction activity
2. Rising investment demand
3. Increasing interest in secondary segments

The office market

Since confidence is growing in the overall economy, it is expected that construction activity will also slowly start to pick up again. A number of major projects have been announced which are scheduled to be completed in mid-2015 at the earliest. This year the largest office building to be finished will be Pakhuset at Langelinie, built by ATP Ejendomme. This building is located on Marmormolen on the opposite side from the UN City office complex completed in mid-2013, and represents yet another office building added to the Copenhagen waterfront.

Over a long period investors in the office market have focused more or less solely on prime properties with financially strong tenants on long leases. Properties of this type continue to be easily sellable in the current market, but the supply of such properties is correspondingly low. This has put a downward pressure on the yield for prime office properties in the CBD, which has fallen by 25 basis points to 4.75% and has caused investors to seek new markets in the pursuit of higher yields. The new tendency, which has become more evident as 2014 has passed, is an increasing interest in office buildings in more secondary locations.

In the first part of 2014 Greater Copenhagen has seen significantly increasing vacancy rates, while the vacancy rate has fallen by 10 basis points in the CBD area in Copenhagen. This illustrates the fact that the secondary office area around Copenhagen is continuing to suffer in the current market. Only the modern and space-efficient properties to be found in most of the CBD can uphold the prime rent levels, which has led to an increasing price differentiation between up-to-date, space-efficient office premises and more dated, inefficient or inflexible office premises.

The retail market

The surge in demand for prime retail assets is continuing through 2014, and the market is still dominated by international investors. The high-street market continues to be very attractive, which has put a downward pressure on yields, but local shopping centres with strong catchments in cities outside Copenhagen like Lyngby and Herlev have also experienced some significant acquisitions in the first half of the year.

Activity on the Danish retail market is expected to continue for the rest of the year but the total transaction volume for 2014 is not expected to reach the 2013 level. This is mainly due to the two large individual acquisitions in 2013 of Magasin at Kongens Nytorv in Copenhagen and of Rosengårdcentret in Odense, which accounted for a shade under DKK 5 billion.

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THE BALTIC REGION - OPPORTUNITIES FOR NEW INVESTORS

Economic development

Lithuania
Lithuania has committed itself to adopting the euro and will become a full member of the European Economic and Monetary Union on 1 January 2015. In spite of geopolitical uncertainty, Lithuania's balanced exports, low government debt and stable domestic demand will ensure its future economic growth. GDP is expected to increase by 3.0% in 2014 and 4.0% in 2015.

Average annual inflation in 2013 was 1.2%, and inflation should continue to meet the Maastricht criteria for the rest of 2014. With the adoption of the euro, inflation is expected to rise to 2.4% in 2015, mainly because of prices being rounded up and in anticipation of higher wages.

Latvia
Latvia has shown a strong recovery from the decline of recent years. However, the Ukraine crisis and Russian economic weakness are having an impact on economic performance in 2014. Latvia's large trade exposure to Russia is slowing exports, and the heightened geopolitical uncertainty has held back investment. As a result Latvia's GDP is expected to increase by no more than 3.0% in 2014 and 2.2% in 2015. Private consumption has continued to increase in 2014 and has sustained Latvia's GDP growth.

The annual inflation rate was 0.0% in 2013, but after reaching a figure of -0.4% in January, the lowest level since September 2010, inflation has risen slightly and is expected to lie in the bracket 1.0 to 1.5% by the end of 2014.

Estonia
The turbulence in the euro zone combined with the absence of strong core industries to act as engines of economic development is preventing the Estonian economy from making a breakthrough. Significant GDP growth in 2011 was followed by rather moderate increases in 2012 and 2013. No major changes in the Estonian economy are expected, and GDP growth of 0.9% in 2014 and 1.5% in 2015 is forecast.

Labour-market indicators are encouraging and stabilising (the unemployment rate for 2014 is forecast at 8.0%, accompanied by moderate increases in wages and salaries), and private consumption is growing at 4.0% per annum. Inflation fell to 2.8% in 2013, a greater fall than was expected, and we expect the trend to continue downward to 1.2% in 2014, followed by a slight increase and stabilisation.

The investment market
The Baltic States have shown impressive results in combating the financial crisis and recovering from recession. Moreover, the currency risk has been removed following the adoption of the euro in Estonia and Latvia, and with Lithuania joining the euro zone in 2015. Thirdly, transaction volume has regained its pre-crisis level (totalling about EUR 480 million in 2013) and is expected to remain high in 2014.

Nordic, Baltic and Russian investors are still the key players in the Baltic market due to the high return on investment. Although yields have decreased significantly in recent years, there is still an attractive gap compared to Western European levels. Average yields for prime retail and office assets remain around 7.00 to 7.25%, with the most attractive properties being bought at yields up to 50 basis points lower. Secondary properties produce yields between 8.0 and 8.5%. Due to the predicted economic slowdown and in economy and uncertainty in the geopolitical situation we forecast slightly increasing yields in the office and retail segments for the coming period of 2015-2016.

It is important to note that rental levels are still in the recovery phase and property values are very reasonable, often at around their development costs. Together with an imminent rise in retail and office rents as well as yield compression, capital values are expected to demonstrate impressive growth, thus offering a chance to get high returns on investment within a short timescale.

The key market trends can be summarised as follows:

1. Increasing transaction volumes
2. Rising retail and office rents
3. Opportunity for high returns with low risk on investment

> "A trend of rising rents in both shopping centres and retail streets has been apparent in 2013 and the first half of 2014"

The office market
With the opening of three new speculative office buildings in 2014 the total stock of modern offices in Vilnius is expected to rise to over 406,000 m², or 0.8 m² per capita, by the end of the year. The average vacancy rate in A-class offices fell from 5.0% to 2.1% over the first half of 2014 and is currently at a critically low level. At the end of June the average market rent for prime office premises in Vilnius CBD was in the range EUR 14.0 to 15.5 per m² per month. Prime office rents are expected to increase by at least 2.0% during the rest of the year. Projects planned to be completed in 2015 will have significant influence on both rents and vacancy level in the Vilnius office market.

A slight slowdown of activity in the Riga office market was observed in the first half of 2014 due to a relative shortage of vacant good-quality office space and growing rent expectations by landlords. Since no new speculative building of prime A-class offices is currently under way in Riga city centre, the supply of city-centre offices will remain the same for the next two years. Although owners' expectations about rent levels have risen, average rents in the transactions concluded since the beginning of 2014 have not changed significantly from 2013. It is important to mention that several office buildings in Riga are currently under construction or reconstruction as 'built-to-suit' projects for public-sector institutions, and this may impact the vacancy rate for modern B-class offices in Riga.

The Tallinn office market is still heading towards forming differentiated clusters. Tenants' bargaining power is improving as new office projects are completed, which tightens competition among landlords. At the end of 2013 and beginning of 2014 developers delivered to the market over 30,000 m² in both A-class and B-class segments. The most active demand from local business in Tallinn continues to be for premises from 50 to 100 m², while international tenants mostly demand premises sized from 200-350 m² up to 500 m². We expect current vacancy rates to continue and premises in new developments to be taken by the end of the year.

The retail market
Continuously improving turnover/rent ratios in successfully operating shopping centres in Vilnius have enabled rents to increase. A trend of rising rents in both shopping centres and retail streets has been apparent in 2013 and the first half of 2014, since the demand for quality retail premises remains high. By the end of the year, average rents in the largest shopping centres in prime locations in Vilnius are expected to reach EUR 20 to 22 per m² per month, while vacancy rates will reduce to 1.5%. Demand in the retail market is increasing as the majority of retailers have expansion in their plans. All of the largest shopping centres are attracting new 'big brand' tenants and improving their tenant mix.

In Riga, rents in the best shopping centres are expected to remain stable in 2014, after increasing by an average of 10% in 2013. During the first half of 2014 vacancy rates fell and are now around 1 to 2% in Riga's most successful shopping centres. The reason is the centres' strong tenant rotations because of the further expansion of such brands as H&M, Reserved, Lindex, Next etc. An upward trend in shopping-centre development has attracted the largest Lithuanian developer VP Group, which plans to open a new shopping centre, Akropolis, in Riga in 2016. Linstow Center Management also plans to expand its two existing shopping centres by 2017-2018.

In Tallinn, over 39,000 m² of new retail space was delivered to the market in 2013 after a quiet 2011 and 2012. Development activity in the segment continues to grow and a new large-scale retail project will be introduced to the Tallinn market in 2014-2016. At the end of 2013, vacancy in well-performing shopping centres in Tallinn remained below 1%. Rents have stabilised in recent years. In 2013 and the first half of 2014, the prime rent in Tallinn shopping centres has been up to EUR 50 per m² per month, and average rent above EUR 17 per m² per month. No substantial growth is expected in the next two years because of a forecast increase in supply.

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SUMMARY - NORTHERN EUROPEAN PROPERTY

TOWARDS AN INTENSIVE PHASE IN THE INVESTMENT CYCLE

Since spring 2013 the Norwegian and Swedish property markets have shifted from a one-sided focus on high-quality properties in prime locations towards broad activity mainly in segments outside prime locations. This includes inner-city and prime suburban office locations as well as retail, logistics and residential properties in regional and smaller growth cities. In line with this, transaction activity in the CBDs of the major cities has fallen markedly, mainly due to low yields and limited supply. The overall effects of the market shift have been profound, and high-yielding property segments in the major cities are now starting to get crowded.

One way of measuring what phase in the investment cycle the market has reached is to look at the yield-spread between prime and non-prime property segments. The yield-spread between offices in Stockholm CBD and those in prime suburban locations is strongly correlated with the spread between AAA and ABB rated US corporate bonds, with a one-year time lag. In other words, the US corporate bond market works as a leading indicator for the Swedish property market. Thus, after adjusting for the extreme values of 2008, the correlation from 2000 to mid-2014 is over 0.5. The US corporate bond market is in turn strongly correlated to the VIX index of the S&P 500, an index generally called the 'fear gauge' since it is a measure of the general risk sentiment on global financial markets.

Last year's market shift started to push down yields for prime suburban and outer-city offices in the major Swedish and Norwegian cities. Although the market has been dominated so far by domestic property companies and institutions, there is now an increasing interest from international investors. Leading indicators now indicate that transaction activity will intensify further in 2015 and yield-spreads will keep on declining. All in all, total return in CBD and inner-city locations will be driven by rental growth, while return in more secondary locations will be driven mainly by yield compression.

WHEN WILL THE INVESTMENT CYCLE PEAK?

Prices on the Swedish and Norwegian property markets are now in phases where both prime and secondary segments are starting to become rather highly priced. However, property yields are also much more inert than bond yields and there are still quite healthy margins between real interest rates and prime property yields. These margins will help Nordic property to absorb increasing interest rates better than bonds. In addition, total return on property has a strong correlation with GDP growth – with a correlation of almost 0,7 on the Swedish property market for the period 1992-2013. This correlation extends through the rental market, and there are therefore good potentials for strong rental development as the economic recovery picks up speed, which will further reduce the impact of higher interest rates on prices.

Finland and Denmark are in entirely different positions in the investment cycle. In Finland the investment market has just bottomed out and signs of recovery are starting to be visible on the property market, although the overall economic prospects still look quite bleak. Transaction volumes have increased to some degree, mainly in the public property sector. Competition among investors is low and there are good potentialities to acquire high-quality properties outside the absolute prime locations in several major cities. The Copenhagen market has also started to recover slowly, although some positive growth on the demand side is still required before the market will recover fully. Transaction activity is expected to pick up in the next six months and 2014 will reach at least the level of last year.

All in all, the window of opportunity for property investors to 'ride the markets' in Sweden and Norway is now quickly closing. Instead, property-specific factors are becoming crucial when making investments. It is all about finding each property's potential for increasing rents and reducing vacancies. Simultaneously the second half of 2014 and 2015 will be a good time for portfolio re-allocations. In Finland and Denmark, in contrast, there are now good potentialities for investors to position themselves for a future pick-up in activity on the property markets and a potential yield compression for high-quality properties in non-core segments.

NORDIC PROPERTY FINANCING

To reduce the risks of new financial crises, a regulatory standard has been created that places requirements on the banks regarding capital and liquidity. This is being implemented progressively, called Basel III, with the current capital rules having come into force on 1 January 2014. At the same time the EU regulations and also the first part of the Basel III agreement have been incorporated into Swedish law. The new regulations give Finansinspektionen (the Swedish Financial Supervisory Authority) the ability to grant the banks exemption from the Basel I floor, which defines the minimum capital buffer that a bank must have. However, after putting the issue out for comment, Finansinspektionen announced that it will stand by its earlier position that it is not appropriate to grant any exemption.

Although the regulations include mechanisms to benefit smaller companies, the banks are continuing to impose a relatively high risk-premium. The really large companies have the weight to continue to push interest-rate margins downwards. Nevertheless, it seems that in spite of new regulations and in spite of falling interest-rate margins, the banks are able to continue lowering their interest-rate margins without reducing the increase in their own profit.

In general the banks remain relatively conservative regarding loan-to-value, and it is possible to sense a growing caution in new lending. But the strong competition is continuing to cause even more downward pressure on interest-rate margins.

One interesting reflection is that it is possible to detect an increasing interest from foreign banks for the Swedish market. It may not be wholly unlikely that we will start to see a proportion of the international banks that were extremely cautious or totally closed to new lending in recent years beginning to become active once again on the Swedish lending market. Probably we will also then be able to enjoy a greater understanding of interaction between senior and junior lending.

However, the Swedish credit market is currently enjoying a broader supply of junior lending – in other words, lenders that rank behind senior lenders, lending at a higher interest rate but also higher loan-to-value ratios and with collateral ranked junior to the senior lender's collateral. In this field we see a great variation both in how risk is priced and in how the collateral offered is valued. Two junior lenders are leading the race, and one of them will soon receive a bank charter.

THE BOND MARKET AND SOME OF THE JUNIOR LENDERS ARE THE ONES MOST "ON THE BALL"

Among the junior lenders that have the highest levels of competence can be seen a good understanding of the transaction and a greater willingness to accept that both the lender and the borrower should make a sound deal than is sometimes found at traditional senior banks. Furthermore, even though junior lenders naturally value repeating business and returning clients, they often do not make the somewhat greedy and self-righteous demands for further business that sometimes are sadly encountered at traditional senior banks. There are some junior lenders who demand unreasonable levels of interest-rate margins from borrowers of a sound creditworthiness that in no way reflects the credit risk. However, they are risking becoming a 'last resort of financing', or simply earning too small a customer base, which in the long run is likely to be self-terminating.

The appetite from the bond market remains strong. A good understanding of the transactions and a fine-tuned pricing of risk can often be found here. The high-yield bond market has also begun to price risk in an ever-wider spectrum, and we hope to see an even higher degree of fine tuning there. There remains surprisingly little difference between secured and unsecured loans, although

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we are seeing a growing trend towards valuing and ranking securities of different types.

To sum up, it seems that the bond market and some of the junior lenders are the ones most 'on the ball'. The traditional senior lenders have a great market opportunity but choose in many cases to show a surprising lack of flexibility. Naturally there are now and then substantial glimmers of light even there.

There is room for all three categories, but hopefully we will see a completely natural thinning-out of the market, where those with flexibility, knowledge, skill, willingness to do business and understanding of the transactions will be the ones who take new market shares, at the expense of those who lack these virtues.

NEWSEC DEBT CAPITAL MARKETS

Newsec Debt Capital Markets offers customers support with senior, junior and mezzanine loans through banks as well as through the bond market. Newsec DCM also offers help with other structured products and different kinds of alternative sources for financing working capital. We advise our customers all the way from analysis, structuring and negotiation to signing and disbursement. Newsec DCM also offers support with negotiations when trading interest rate and FX derivatives.

MATS KARLSSON, HEAD OF DEBT CAPITAL MARKETS

Mats is responsible for Newsec Debt Capital Markets, focusing on external financing for the customers of Newsec. Mats has more than 15 years of experience from domestic and international banks.

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TOWARDS AN INTENSIVE PHASE IN THE INVESTMENT CYCLE

Total Return vs Risk

Source: Newsec

A Office Stockholm Prime
B Office Gothenburg Prime
C Office Malmö Prime
D Office Oslo Prime
E Office HMA Prime
F Office Copenhagen Prime[1]
G Office Tallinn Prime[2]
H Office Riga Prime[2]
I Office Vilnius Prime[2]

J Retail Stockholm Prime
K Retail Gothenburg Prime
L Retail Malmö Prime
M Retail Oslo Prime[3]
N Retail HMA Prime[3]
O Retail Copenhagen Prime[3]
P Retail Tallinn Prime[4]
Q Retail Riga Prime[5]
R Retail Vilnius Prime[4]

S Residential Stockholm Prime
T Residential Gothenburg Prime
U Residential Malmö Prime
V Residential HMA Prime[3]

W Logistics Stockholm Prime[3]
X Logistics Gothenburg Prime[3]
Y Logistics Malmö Prime[3]
Z Logistics Oslo Prime[3]
AA Logistics HMA Prime[3]
AB Logistics Tallinn Prime[3]
AC Logistics Riga Prime[3]
AD Logistics Vilnius Prime[3]

Portfolio 1 - Safe Haven
Portfolio 2 - Risk Return
Portfolio 3 - Risk Lover

PORTFOLIO OPTIMISATION – FINDING THE OPTIMAL RISK/RETURN COMBINATION

It is possible to draw an effective frontier which identifies the best possible total return for each level of market risk for each of the prime property segments in the Northern European region. The Baltic property market is a riskier market than the Nordic one, but is also expected to have a stronger total return. To illustrate this, Newsec has outlined three model portfolios based on the prime property segments assessed in our region with different levels of risk. The first portfolio, 'Safe Haven', is a portfolio with good return and low risk and consists of residential properties in Helsinki and retail properties in prime locations in Copenhagen. The second portfolio, 'Risk Return', includes prime offices in Stockholm, prime retail in Copenhagen and logistics in Riga. The third portfolio, 'Risk Lover', includes prime retail in Copenhagen and logistics in Riga and produces high risk and return.

STRONG GROWTH POTENTIALS CREATE GOOD FUNDAMENTALS FOR PROPERTY

The Nordic economies, and especially Sweden and Norway, have shown strong development during recent years. The region has stood out from the rest of the developed world with its strong macroeconomic fundamentals. Low sovereign debt, transparent economies, a well consolidated banking system and consumers with sound personal finances produce a combination of stability and growth potentialities.

Sweden and Norway are relatively high performers in an international perspective. GDP growth is expected to be well in line with the USA during 2004-2016, averaging 2.8% in Sweden and 2.3% in Norway. Domestic demand has been an important Nordic growth engine when export demand has been weak. However, net exports are expected to make a positive contribution to GDP from 2015 onwards. While Finland has been severely affected by structural weaknesses and the sanctions on Russia, Denmark is currently a good way into recovery and GDP growth is expected to average 2% per year in 2014-2016.

ACTIVITY IS INTENSIFYING ON THE SWEDISH AND NORWEGIAN MARKETS

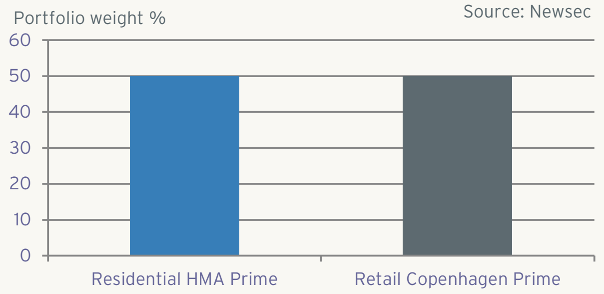
Since spring 2013 the Norwegian and Swedish property markets have shifted from a one-sided focus on high-quality properties in prime locations towards broad activity mainly in segments outside prime locations. This includes inner-city and prime suburban office locations as well as retail, logistics and residential properties in regional and smaller growth cities. In line with this, transaction activity in the CBDs of the major cities has fallen markedly, mainly due to low yields and limited supply.

The market shift was driven by improving market sentiment, better credit access, historically low interest rates and a bull run on the stock markets in Europe and the US. The effects on the market have been profound, and high-yielding property segments in the major cities are now starting to get crowded.

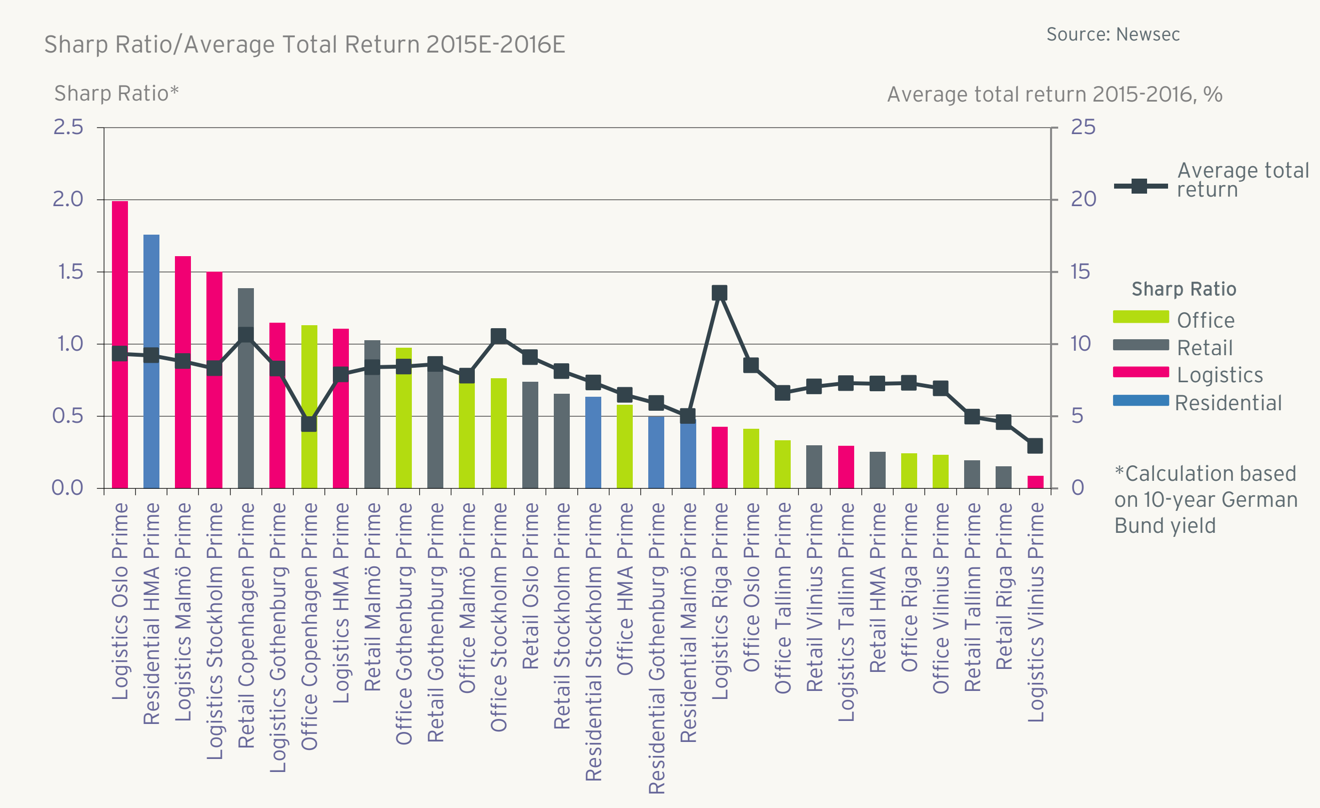
One way of measuring what phase in the investment cycle the market has reached is to look at the yield-spread between prime and non-prime property segments. After adjusting for the extreme values of 2008, the yield-spread between offices in Stockholm CBD and those in prime suburban locations is strongly correlated with the spread between AAA and ABB rated US corporate bonds, with a one-year time lag. In other words, the US corporate bond market works as a leading indicator for the Swedish property market: last year's spread on the US corporate bond market seems to indicate this year's property yield-spread in Sweden. Thus, after adjusting for the extreme values of 2008, the correlation from 2000 to mid-2014 is over 0.5. The US corporate bond market is in turn strongly correlated to the VIX index of the S&P 500, an index generally called the 'fear

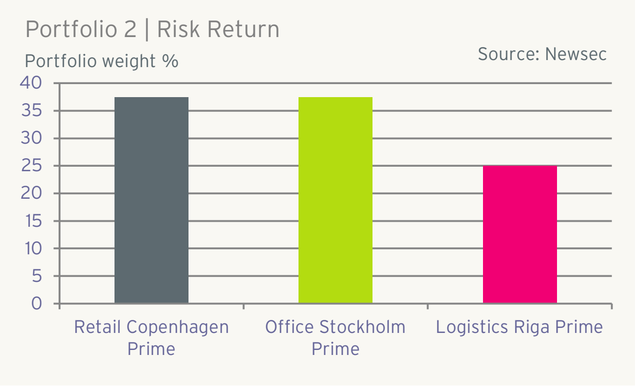
Based on historical total-return data since the early 2000s, Newsec has assessed the risk level for each property segment in the Northern European region by calculating the standard deviation in both the historical and the forecast future total return. The assessed risk has then been set in relation to each segment's expected development of total return for 2014-2016, and risk-adjusted return has been calculated.

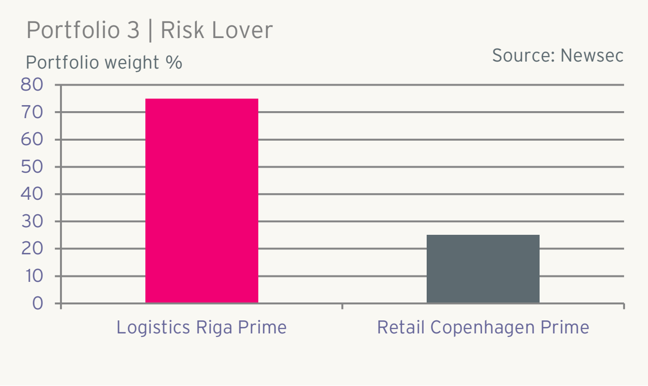
Portfolio 1 | Safe Haven



> “Last year’s market shift started to push down yields for prime suburban and outer-city offices in the major Swedish and Norwegian cities.”







> "Total return on property has a strong correlation with GDP growth – with a correlation of almost 0.7 on the Swedish property market"

gauge' since it is a strong measure of the general risk sentiment on global financial markets.

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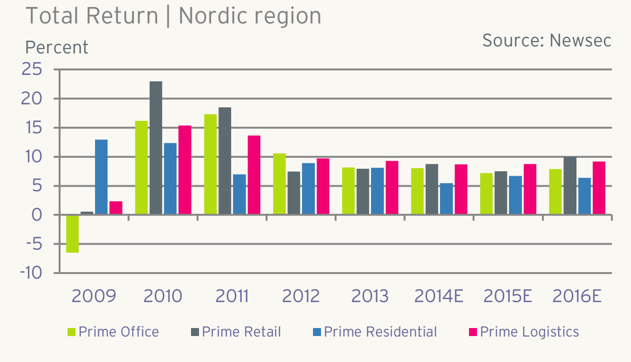
Prices on the Swedish and Norwegian property markets are now in phases where both prime and secondary segments are starting to become rather highly priced. However, property yields are also much more inert than bond yields and there are still quite healthy margins between real interest rates and prime property yields. These margins will help Nordic property to absorb increasing interest rates better than bonds.

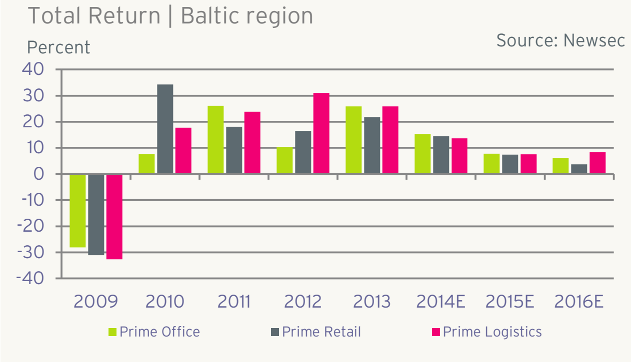
In addition, total return on property has a strong correlation with GDP growth – with a correlation of almost 0,7 on the Swedish property market for the period 1992-2013 (where 1.0 represents a full linear relationship where all changes in total return can be explained by the GDP growth). This correlation extends through the rental market, and there are therefore good potentials for strong rental development as the economic recovery picks up speed, which will further reduce the impact of higher interest rates on prices.

Finland and Denmark are in entirely different positions in the investment cycle. In Finland the investment market has just bottomed out and signs of recovery are starting to be visible on the property market, although the overall economic prospects still look quite bleak. Transaction volumes have increased to some degree, mainly in the public property sector, and Swedish investors in particular have been active on the market during the first half of 2014. Competition among investors is low and there are good potentialities to acquire high-quality properties outside the absolute prime locations in Helsinki, as well as in other major cities. The Copenhagen market has also started to recover slowly, although some positive growth on the demand side is still required before the market will recover fully. Since transaction activity is normally higher in the second half of the year it is expected that demand will pick up in the next six months and that 2014 will reach at least the level of last year.

Total Return | Nordic region



Total Return | Baltic region



> "Over time the Baltic property market is expected to converge with the Nordic"

All in all, the window of opportunity for property investors to 'ride the markets' in Sweden and Norway is now quickly closing. Instead, property-specific factors are becoming crucial when making investments. It is all about finding each property's potential for increasing rents and reducing vacancies. Simultaneously the second half of 2014 and 2015 will be a good time for portfolio reallocations.

In Finland and Denmark, in contrast, there are now good potentialities for investors to position themselves for a future pick-up in activity on the property markets and a potential yield compression for high-quality properties in non-core segments.

LOGISTICS IN MALMÖ AND OSLO HAVE THE BEST RISK-ADJUSTED RETURNS

The Nordic property market in general offers a low risk and a stable total return – and the logistics market stands out with expectations of a strong total return due to relatively high yield levels combined with low historical market volatility (although there are large unique differences in risk profile between individual properties). The best-performing segments in 2014-2016 are expected to be logistics in Oslo, Malmö and Stockholm, and residential properties in good locations in the Helsinki Metropolitan Area. The logistics sector is propelled by a stable rental development and relatively high yield levels, while strong and stable rental growth drives total return for the residential segment.

The prime retail sector in Copenhagen also stands out for its strong expected risk-adjusted return. The surge in demand for prime retail assets is continuing through 2014, and the market is still dominated by international investors. The high-street market continues to be very attractive, which has put a downward pressure on yields.

Although extremely low yields are reducing total returns for prime residential properties in the main Swedish cities, there is a clear undersupply of residences in the major cities and the regulated rents make cash-flows extremely safe. The service sectors in the major Nordic cities will also keep on growing and will generate a continuous demand for high-quality office premises. However, risk-adjusted returns for the office segments are hampered by historically high rental volatility, especially in Stockholm and Oslo.

A FALLING YIELD SPREAD BETWEEN THE NORDIC AND BALTIC PROPERTY MARKETS

Over time the Baltic property market is expected to converge with the Nordic because the current risk premium linked to the region is declining. The high overall risk on the Baltic property market is mainly connected to a volatility that historically was extremely high but has fallen significantly during recent years and is expected to go on declining during 2015-2016. Moreover, the currency risk has been removed following the adoption of the euro in Estonia and Latvia, and with Lithuania joining the euro zone in 2015. The increasing geopolitical tension arising from the situation in Ukraine is, however, affecting the Baltic property market.

Nordic, Baltic and Russian investors are still the key players in the Baltic market due to the high return on investment. Although yields have decreased significantly in recent years, there is still an attractive gap compared to Western European levels. The segment with the best risk-adjusted return on the Baltic property market is prime logistics properties in Riga. Total return is expected to be stronger in this segment than in the rest of the region, but the historical market volatility is also above the regional average. In line with falling prime yields, the total return for prime segments has fallen since 2009-2010 - which has flattened the slope of the effective frontier (shown on the graph on page 26). The effect is that the historical market volatility connected to the Baltic market is relatively high in relation to the premium in total return that investors got, compared to the Nordic market. All in all, this is generating significantly lower risk-adjusted return on the Baltic property market compared to the Nordic.

DEFINITIONS

OFFICES

- In the Nordic region, the forecast refers to new or newly refurbished modern and flexible office premises with normal area efficiency.
- In Finland, the forecast refers to office premises with normal area efficiency in office buildings in office areas.
- The size of the premises is assumed to be around 1,000 m².
- In the Baltic region, the forecast refers to new or newly refurbished stand-alone modern business centres.
- In Sweden the market rent includes heating and excludes Property Tax.
- In Finland the market rent includes heating and Property Tax.
- In Norway and Denmark the market rent excludes heating and Property Tax.
- In the Baltic region the market rent excludes all applicable taxes.

RETAIL

- Rent levels refer to attractive, modern high-street or centrally located shopping-centre retail premises with a prime location on the high street or in the shopping centre.
- In Norway, rents refer only to shopping centres.
- The rents do not refer to premises used for groceries and daily necessities (except in the Baltic region).
- The size of the premises is assumed to be around 250 m².
- The rent excludes heating and Property Tax in all Nordic countries except Finland where heating and Property Tax are included.
- In the Baltic region the market rent excludes all applicable taxes.

LOGISTICS

- In the Nordic region the size of the premises is assumed to be 5,000-20,000 m² with 5-10 years lease agreement.
- In the Baltic region the size of the premises is assumed to be from 3,000 m² with 3-5 years lease agreement.
- In the Nordic region the rent excludes heating and Property Tax.
- In the Baltic region the market rent excludes all applicable taxes.

RESIDENTIAL

- The forecast refers to attractive locations.
- The standard assumes buildings constructed in the late 1990s and with an apartment area of around 60-70 m².
- The rent includes heating and Property Tax.

EXCHANGE RATES

All rents and transaction volumes are calculated using exchange rates from February 2014.

NEWSEC´S ANALYSIS PRODUCTS

Thanks to Newsec's comprehensive knowledge we are able to offer a number of analysis and market reports which give you a valuable summary of the property market.

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THE FULL SERVICE PROPERTY HOUSE IN NORTHERN EUROPE

Today, Newsec employs over 600 professionals in over 20 offices and covers all parts of the commercial property market. Newsec provides services to most of the leading property owners, investors and corporates in the region.

Newsec – The Full Service Property House in Northern Europe – is by far the largest specialised commercial property firm in Northern Europe.

Newsec manages more properties and carries out more transactions, more lettings and more valuations than any other firm in Northern Europe. Through this great volume, and the knowledge and depth of our various operations, we acquire extensive and detailed knowledge of the real estate market. In turn, we can quickly identify business opportunities that create added value.

Our prime market is Northern Europe, but through our alliance membership with BNP Paribas Real Estate, we offer our services on the global market. This makes Newsec Northern Europe's only full service property house, and provides us with a unique ability to forecast the future.

A HISTORY OF GROWTH

Newsec is the result of a unique history of growth, characterised by constant originality of thinking. The first issue of the comprehensive market analysis, Newsec Property Outlook, was published in 2001.

The Group expanded internationally into Finland in 2001, Norway in 2005 and the Baltic countries in 2009. The Norwegian asset and property management companies First Newsec Asset Management and TM Partner were acquired in 2012. In 2013, Newsec acquired Jones Lang LaSalle's Swedish property management operation.

Newsec is a stable and long-term player. The company was founded in Sweden in 1994. The founding family have been the main owners from the start, with the rest of the company owned by key executives in the Group.

Newsec offers a comprehensive range of services in the business areas Capital Markets, Leasing, Asset & Property Management, Valuation & Advisory, and Corporate Solutions.

CAPITAL MARKETS

In recent years Newsec has carried out property transactions with an underlying property value of close to EUR 10 billion. Newsec has 50 professionals working in Capital Markets. Our offering includes transaction advice on Single properties, Property portfolios, Development properties, Sale & Leaseback and Renewable energy.

LEASING

Last year our 30 professionals arranged leases for commercial space totalling 700,000 square metres in all types of properties. Newsec's broad network and experienced team provide the right conditions to minimise vacancies and to find the best tenants.

ASSET & PROPERTY MANAGEMENT

Newsec's more than 500 professionals manage 1,500 properties with a total footprint of over 11 million square metres - including 60 shopping centres. Our services include Asset Management, Property Management, Property Caretaking, Leasing and Project Development.

VALUATION & ADVISORY

In recent years our team of 60 professionals has valued properties with an underlying value of EUR 70 billion each year. Due to our comprehensive market presence, our team has access to more market intelligence than any other player on the market.

CORPORATE SOLUTIONS

Newsec's 25 professionals in Corporate Solutions manage projects for our clients in cooperation with the more than 600 employees of the whole Group. Newsec advises tenants and owner occupiers in all matters concerning the best use of premises.

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