

SWEDEN

# Office Market Snapshot

Third Quarter | 2017



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Strong rental growth in Stockholm. Growth in Gothenburg and Malmö concentrated to new supply. ▼
- Prime Yields: Rent reversionary potential and lack of assets for sale keep pressure on yields. ►
- Supply: Higher gross supply but conversion from office to residential slows supply growth. ►
- Demand: Healthy occupational demand expected to remain in both central and suburban locations in Stockholm ▼

### Prime Office rents – September 2017

| LOCATION                        | SKR     | €       | US\$     | GROWTH % |          |
|---------------------------------|---------|---------|----------|----------|----------|
|                                 | SQ.M YR | SQ.M YR | SQ.FT YR | 1YR      | 5YR CAGR |
| Stockholm (CBD - Norrmalmstorg) | 6,750   | 708     | 78.1     | 15.4     | 8.0      |
| Stockholm (City Centre)         | 4,800   | 504     | 55.5     | 12.9     | n/a      |
| Stockholm (Decentralised)       | 3,550   | 372     | 41.1     | 6.0      | 10.0     |
| Gothenburg                      | 3,000   | 315     | 34.7     | 5.3      | 4.6      |
| Malmö                           | 2,450   | 257     | 28.3     | 2.1      | 2.6      |

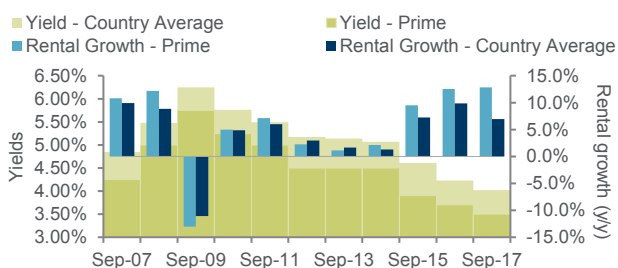
### Prime Office yields – September 2017

| LOCATION<br>(FIGURES ARE NET, %) | CURRENT | LAST | LAST | 10 YEAR |      |
|----------------------------------|---------|------|------|---------|------|
|                                  | Q       | Q    | Y    | HIGH    | LOW  |
| Stockholm (CBD - Norrmalmstorg)  | 3.50    | 3.50 | 3.70 | 5.75    | 3.50 |
| Stockholm (City Centre*)         | 4.00    | 4.00 | 4.25 | 5.00    | 4.00 |
| Stockholm (Decentralised)        | 4.25    | 4.25 | 4.75 | 7.50    | 4.25 |
| Gothenburg                       | 3.90    | 3.90 | 4.00 | 6.50    | 3.90 |
| Malmö                            | 4.25    | 4.25 | 4.25 | 6.50    | 4.25 |

Note: \*2yr record

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

The job markets of the major Swedish cities remain strong with Q2 2017 employment growth for the Stockholm region reported around 4 percent y/y, Gothenburg and Malmö growth came in just below 3 percent y/y in the second quarter. On the national level, employment growth numbers have continued to rise during Q3 2017. This supports market expectations for lower vacancies and growing rents in the major cities. Growth expectations are driven by export growth, investments and the expansionary fiscal policy ahead of elections in 2018.

## Occupier focus

Vacancies have continued to decline in the Stockholm region in Q3, both in central and decentralized locations, combined with a steady rise in rents. With higher rents, demand for flexibility has increased and property owners are experimenting with turnkey solutions for central office space. Stockholm has also seen a surge in co-working concepts with both small firms and start-ups as well as large corporations among the clients. Despite a record strong occupational market, the Stockholm office project pipeline remains modest with just above 1% of forecast annual growth in stock expected until 2020. Stockholm rents are expected to grow steady over the coming years. Major developments and refurbishments in the CBD will result in a more attractive city center adding hotels, restaurant and retail space.

## Investment focus

Office transaction activity declined q/q in Q3 but for the first nine months of 2017 total deal volume was 40% higher compared to the same period 2016. Gothenburg and Malmö are experiencing increased interest from a broad range of investors for the high quality stock of new offices that have come to the market in recent years and will continue to do so. In the Stockholm region, the re-pricing of prime suburban locations continues. Driven by the improvement in infrastructure over time, the spread in rents versus the inner city and the CBD, and the increasing quality of the tenants that keep locating to suburban areas.

## Outlook

The pipeline of new office supply in the Stockholm region remains historically low, with residential conversions further depleting the existing stock. Despite the record high capital values of today, most core investors remain reluctant to selling for fear of being able to source alternative investments. Fundamentals remain supportive to the occupational office markets in all three major cities and international investor interest has increased in 2017.

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| LOCATION                   | BUILT STOCK<br>(SQ.M) | AVAILABILITY<br>(SQ.M) | VACANCY RATE<br>(%) | TAKE-UP<br>(SQ.M) | TAKE-UP YTD<br>(SQ.M) | UNDER CONSTRUCTION<br>(SQ.M) |
|----------------------------|-----------------------|------------------------|---------------------|-------------------|-----------------------|------------------------------|
| Stockholm (CBD)            | 1,787,100             | 57,000                 | 3.2%                | -                 | -                     | 27,250                       |
| Stockholm (City Centre)    | 3,638,000             | 227,000                | 6.3%                | -                 | -                     | 0                            |
| Stockholm (Decentralised)  | 6,216,100             | 715,000                | 11.5%               | -                 | -                     | 259,500                      |
| <b>Stockholm (Overall)</b> | <b>11,641,200</b>     | <b>999,000</b>         | <b>8.6%</b>         | <b>125,000</b>    | <b>425,000</b>        | <b>286,750</b>               |

Source: Cushman & Wakefield

## Key Occupier Transactions

| PROPERTY              | SUBMARKET     | TENANT     | SIZE<br>(SQ.M) | TRANSACTION<br>TYPE |
|-----------------------|---------------|------------|----------------|---------------------|
| Orgeln 7 (Sundbyberg) | Decentralised | Swedbank   | 16,500         | New lease           |
| Tygelin 2 (Solna)     | Decentralised | Arla Foods | 5,000          | New lease           |

Source: Cushman & Wakefield

## Key Investment Transactions

| PROPERTY   | SUBMARKET   | SELLER / BUYER                  | YIELD       | PRICE<br>€ MILLIONS |
|------------|-------------|---------------------------------|-------------|---------------------|
| Färöarna 1 | Kista       | Sveareal / M2 Gruppen           | n/a         | 25.0                |
| Gladan 4   | City centre | Private seller / AREIM Fund III | 4.25%–4.50% | Conf.               |

Source: Cushman & Wakefield, Real Capital Analytics

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