

SWEDEN

Office Market Snapshot

First Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Stockholm rental growth remains above inflation. Growth in Gothenburg and Malmö concentrated to new supply.	▼
Prime Yields:	Average rents on current leases in Stockholm indicate further rent reversionary potential.	▶
Supply:	Supply growing in 2018-2020 with most concentration in Stockholm Northern suburbs.	▼
Demand:	Healthy occupational demand expected to remain across the major cities, backed by the strong economic backdrop.	▼

Prime Office rents – March 2018

LOCATION	SQ.M			GROWTH %	
	SKR YR	€ YR	US\$ SQ.FT YR	1YR	5YR CAGR
Stockholm (CBD - Norrmalmstorg)	7,100	722	83.9	11.8	9.1
Stockholm (City Centre)	5,750	585	67.9	27.8	n/a
Stockholm (Decentralised)	3,550	361	41.9	2.9	9.1
Gothenburg	3,000	305	35.4	3.4	4.1
Malmö	2,450	249	28.9	2.1	2.6

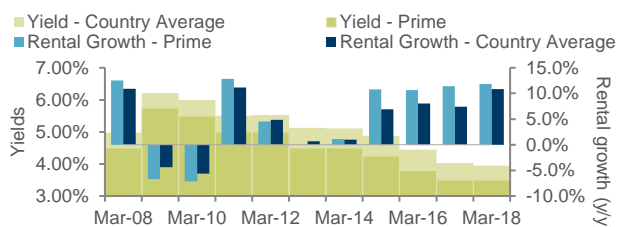
Prime Office yields – March 2018

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

Market sentiment remained strong in Q1 2018 with stable or growing rents in the major cities. Employment growth has remained strong in all major markets and indications such as the Economic Tendencies survey and the Swedish PMI survey indicate further expansion among both manufacturing sector and service sector companies. On the national level, overall employment growth rose to 2% Y/Y in the first quarter of 2018. Regional office employment growth has been the strongest in Gothenburg and Malmö over the last year with the Stockholm region coming in third at 2.4% annual growth.

Occupier focus

Stockholm vacancies have continued to decline but are expected to level out in central areas as the market is approaching full occupancy in the grade A stock. The lack of space is also reflected in the decline in the 2017 take-up figure compared to the previous years. Suburban markets have higher vacancies and also a higher rate of new construction which slows the increase in occupancy.

Stockholm prime rents increased slightly in Q1 2018 to 7,100 SEK per sq. m per year. The strongest rental growth in Malmö and Gothenburg continues to be in the new stock outside the traditional CBD locations.

Investment focus

Deal activity has slowed overall and the office sector is no exception with a decrease in deal volume to date in 2018 of 45% Y/Y on the national level and in the Stockholm region alike. Despite a slower stream of office deals the investor base targeting Stockholm remains active and diversified across both investor categories and countries of domicile. Domestic institutional investors have been active on the sell side while international investment managers are finding opportunities both in central and suburban Stockholm.

Outlook

Growing exports and private sector investments will continue to boost the manufacturing intense Gothenburg region while Stockholm growth is hinged on a diversified mix of ITC, traditional business service sectors and a strong startup scene. Co-working operators have increased their activity and take-up and the international operators are expected to enter the market shortly which will boost short-term demand.

On the investment side the increased liquidity in central locations will continue as institutional owners continue to rotate between assets and segments and international demand for Stockholm offices remains high.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Stockholm (CBD)	1,738,100	46,929	2.7%	-	-	35,000
Stockholm (City Centre)	3,640,000	211,120	5.8%	-	-	3,500
Stockholm (Decentralised)	6,072,950	583,003	9.6%	-	-	263,000
Stockholm (Overall)	11,451,000	841,100	7.3%	125,000	125,000	301,500

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
"Glass Building" Katarinavägen 17	Stockholm City centre	Convendum (serviced offices)	5,000	New lease
SAS building	Decentralised	SAS	9,000	Renewal

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
"Siemens Building" Uarda 6	Decentralised	Fabege / Union	-	120
"SWECO-building" Trängkåren 6	Stockholm City Centre	AMF / AREIM	-	170

Source: Cushman & Wakefield, Real Capital Analytics

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