

SWEDEN

Office Market Snapshot

Second Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Stockholm rents are plateauing on historically high levels. Growth in Gothenburg and Malmö concentrated to new supply.	▶
Prime Yields:	Yields are moving sideways in CBD and best suburban locations. Rent reversionary potential keeps pressure on yields going forward.	▶
Supply:	Supply growing in 2018-2020 with most concentration in Stockholm Northern suburbs.	▼
Demand:	Healthy occupational demand expected to remain across the major Swedish cities, backed by a growing economy.	▼

Prime Office rents – June 2018

LOCATION	SKR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Stockholm (CBD - Norrmalmstorg)	7,200	700	76.2	10.8	9.1
Stockholm (City Centre)	5,750	559	60.8	22.3	n/a
Stockholm (Decentralised)	3,550	345	37.6	1.4	8.6
Gothenburg	3,000	292	31.7	1.7	4.1
Malmö	2,450	238	25.9	2.1	2.6

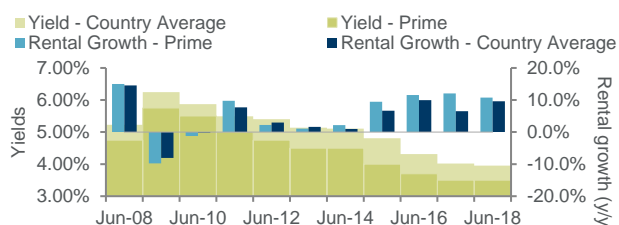
Prime Office yields – June 2018

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	4.00	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

The service business sentiment has remained strong in the second quarter, as indicated by the Swedish PMI service sentiment survey rising in June, and both new orders and hiring plans indicate further employment growth. Deal activity in the office segment has remained busy and recent deals have confirmed the previously observed ATH in pricing across markets.

Occupier focus

Stockholm vacancies declined further in Q2 even though our estimated take-up was slightly lower than in Q1. The modest pipeline of new production continues to weigh on occupiers looking for grade A space in Stockholm and most of the coming increase in completions until 2020 is already pre-let. New construction in Stockholm is concentrated to suburban markets while both the Gothenburg and Malmö office markets have more potential supply of space in central locations.

Stockholm prime rents increased marginally in Q2 2018 to 7,200 SEK per sq. m per year. Although rents have moved sideways in Gothenburg and Malmö during 2018 the strongest rental growth over a longer period has been concentrated to new stock outside the traditional CBD locations.

Investment focus

Overall office deal activity has dropped 25% Y/y in H1 2018 but large office transactions (>EUR 100m) in Stockholm have increased substantially. Divestment decisions by domestic institutional investors combined with a continued strong demand from both domestic and international investors is one contributing factor.

Outlook

Although prime rents have plateaued during the year the demand side still appears strong with co-working operators being among the busiest on new take-up. In early July, co-working giant Wework confirmed that they are opening their first Nordic site in 2019 in the new Urban Escape project in the Stockholm CBD.

Central locations in Stockholm as well as Malmö and Gothenburg still provide substantial rent reversionary potential and we expect that both domestic and international investors continue to be active in the second half of 2018.

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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)	1,738,000	40,000	2.3%	-	-	45,000
Stockholm (City Centre)	3,640,000	196,500	5.4%	-	-	3,500
Stockholm (Decentralised)	6,120,000	563,000	9.2%	-	-	216,000
Stockholm (Overall)	11,498,000	800,000	7.0%	90,000	215,000	265,000

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Karolinska Campus	Hagastaden, Solna	Bayer	3,000	New lease
Hagastaden	Hagastaden, Stockholm	Convendum (serviced offices)	5,500	New lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Härolden 44, Fleminggatan 3	Inner city	Mengus / Barings	-	110
Hönsfodret 1, Tullgårdsgatan 12	Inner city	Folksam / EQT	-	35

Source: Cushman & Wakefield, Real Capital Analytics

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