

MARKET INDICATORS

Market Outlook

Prime Rents:	Stockholm growth abating after 10%+ in 2017 but remains above inflation. Growth in Gothenburg and Malmö concentrated to new supply.	▼
Prime Yields:	Rent reversionary potential and lack of assets for sale keep pressure on yields but per sq. m. capital values are becoming challenging in Stockholm	►
Supply:	Supply growth picking up in 2018 as conversions are expected to be fewer.	▼
Demand:	Healthy occupational demand expected to remain across the major cities, backed by strong employment growth	▼

Prime Office rents – December 2017

LOCATION	SKR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Stockholm (CBD - Norrmalmstorg)	7,000	712	79.4	12.0	8.8
Stockholm (City Centre)	5,500	559	62.4	25.0	n/a
Stockholm (Decentralised)	3,550	361	40.3	4.4	9.5
Gothenburg	3,000	305	34.0	5.3	4.1
Malmö	2,450	249	27.8	2.1	2.6

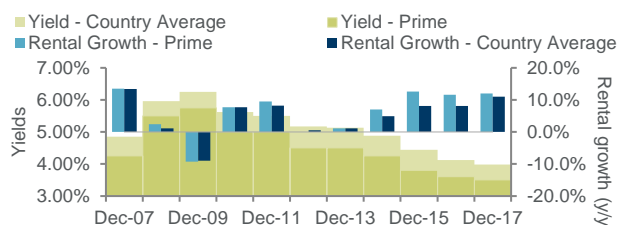
Prime Office yields – December 2017

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Stockholm (CBD - Norrmalmstorg)	3.50	3.50	3.60	5.75	3.50
Stockholm (City Centre*)	4.00	4.00	4.25	5.00	4.00
Stockholm (Decentralised)	4.25	4.25	4.50	7.50	4.25
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 job markets of the major Swedish cities remain strong with Q3 2017 employment growth for the Stockholm region reported at 2.7 percent y/y, while Gothenburg and Malmö growth came in at historically strong levels, above 4 percent and 3 percent respectively. On the national level, employment growth numbers have continued to rise during the year. Market sentiment continues to lean towards lower vacancies and growing rents in the major cities. With a strong rebound on the continent Swedish growth is expected to continue in 2018 with an additional boost from an expansive fiscal policy ahead of elections in 2018.

Occupier focus

The growth in the office stock has slowed during 2017 and in the fourth quarter the change from the previous quarter was a negative 0.3%. The annual change also slowed from 1.4% at the beginning of 2017 to 0.7% in the fourth quarter. Conversion of office space to residential space is the main reason behind the shrinking supply. In 2018 Cushman & Wakefield expects the growth in office supply to revert to between 1.5 and 2.0%. Stockholm vacancies have continued to decline but are expected to remain stable in 2018 at the current levels of around 3% in the CBD. Stockholm prime rents grew more than 10% in 2017 to an average of 7,000 SEK per sq. m per year. The strongest rental growth in Malmö and Gothenburg was not in the traditional CBD locations but instead new office locations in both cities with a strong pipeline of high quality products in recent years saw rental growth of more than 10% each during the year.

Investment focus

Deal activity was down 40% in the fourth quarter compared to last year but the full year deal volume of SEK 32 billion was only 5% behind 2016 excluding the SEK 21 billion Norrporten acquisition by Castellum in Q2 2016. Yields have been stable across markets. Domestic investors have been the dominant players on the buy-side with 88% of total acquisitions – significantly more than the all property-average of 74%. The handful of international investors included Triuva, Union, M&G and CBRE and all involved Stockholm office assets.

Outlook

After four years of strong rental growth the pace is expected to slow in 2018. The reversionary yield potential has weakened and capital values are becoming challenging on some submarkets as yields have remain around all-time lows. In 2018 demand will continue to outstrip supply on most core markets but opportunities exist for example in suburban markets where rental growth has trailed the strong performance of the prime submarkets in 2016 and 2017.

SWEDEN Office Market Snapshot

Fourth Quarter | 2017



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)	1,777,000	51,500	2.9%	-	-	6,000
Stockholm (City Centre)	3,640,000	218,400	6.0%	-	-	0
Stockholm (Decentralised)	6,345,000	634,500	10.0%	-	-	170,000
Stockholm (Overall)	11,762,000	904,400	7.7%	200,000	625,000	176,000

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Nattugglan 14	Stockholm City centre	Tyréns Group	12,000	New lease
Fräsaren 12	Decentralised	Swedish National Agency for Education	13,800	New lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Uppfinnaren 1	Stockholm CBD	Oscar Properties/Fastpartner	3.5%	98
Gladan 5-7	Stockholm City Centre	Tobin Properties/Kungsleden	4.25%	51

Source: Cushman & Wakefield, Real Capital Analytics

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