

SWEDEN

Office Market Snapshot

Second Quarter | 2019



MARKET INDICATORS

Market Outlook

- Prime Rents:** Stockholm rents will continue to rise but at a slowing pace. Rental growth in Gothenburg and Malmö is slowing and some traditional prime areas are weakening. ▶
- Prime Yields:** Yields continue to move sideways in CBD while some peripheral markets will see compression based on rent reversionary potential. ▶
- Supply:** Stockholm supply peaking in 2019-2020 while Gothenburg has a growing potential pipeline. ▶
- Demand:** Healthy occupier demand across the major Swedish cities, but some question marks about the pace of economic growth going forward. ▶

Prime Office rents – June 2019

LOCATION	SKR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Stockholm (CBD - Norrmalmstorg)	7,500	705	79.1	4.2	9.6
Stockholm (City Centre)	5,900	555	62.3	2.6	n/a
Stockholm (Decentralised)	3,700	348	39.0	4.2	9.5
Gothenburg	3,100	291	32.7	3.3	4.8
Malmö	2,500	235	26.4	2.0	3.1

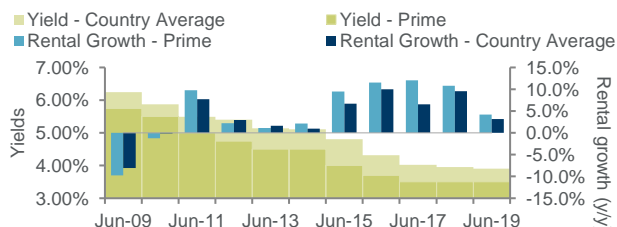
Prime Office yields – June 2019

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	4.00	7.50	4.00
Gothenburg	3.75	3.90	3.90	6.50	3.75
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 come under scrutiny in July as the June PMI Services reading came in at the lowest in six years. Although office demand remains strong and CBD rents remain on ATH levels a weakening business sentiment could indicate a slowdown ahead.

Occupier focus

Stockholm vacancies have continued to decline although the lack of vacant stock is likely slowing net absorption in 2019. The amount of new completions has increased and will stay at cyclical high levels in Stockholm during 2019-2020 according to our estimates. Grade A space remains hard to source for occupiers as much of the new production being completed has been let ahead of completion. 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. However, the bulk of potential completions in these markets lie beyond 2020.

Stockholm prime rents increased some 4% Y-o-Y in Q2 2019 to SEK 7,500 SEK per sq. m per year. Rental growth in Malmö and Gothenburg has been slower and remains concentrated to new stock outside the traditional CBD locations creating interesting dynamics as new areas increase in popularity.

Investment focus

Overall office deal activity has increased more than 20% Y/y in H1 2019 to ca SEK 25 billion. Stockholm deal volume has decreased in the period from 60% of deal volume in H1 2018 to 40% of deal volume in H1 2019. Swedish institutions remain among the most active sellers in Stockholm while a mix of both domestic and international investors are competing for acquisitions. The latest deals include Union Investment's acquisition of an inner-city office building from Swedish insurance company AFA and Europa Capital's entry into the market via the acquisition of a value-add inner-city office building from Swedish institution SEB Trygg-Liv.

Outlook

Demand still appears strong in Stockholm and stable in Malmö and Gothenburg. Both central and suburban locations in Stockholm still provide rent reversionary potential.

Based on capital inflows we expect deal activity to remain strong in H2 2019 with both domestic and international investors seeking product. However, with a potential slowdown in the economy in the medium term, we expect investors to be even more discerning in picking locations with strong underlying dynamics and resilience to a weaker overall occupier demand.

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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
Brädstaplén 16	Inner city (Kungsholmen)	Convendum	5,000	New lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Pelaren 1	Decentralised (Globen)	Fabege / Folksam (KPA)	3.75% (NIY)	~150
Brädstaplén 13	Inner city	SEB Trygg Liv / Europa Capital	3.5% (NIY)	~100

Source: Cushman & Wakefield, Real Capital Analytics

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