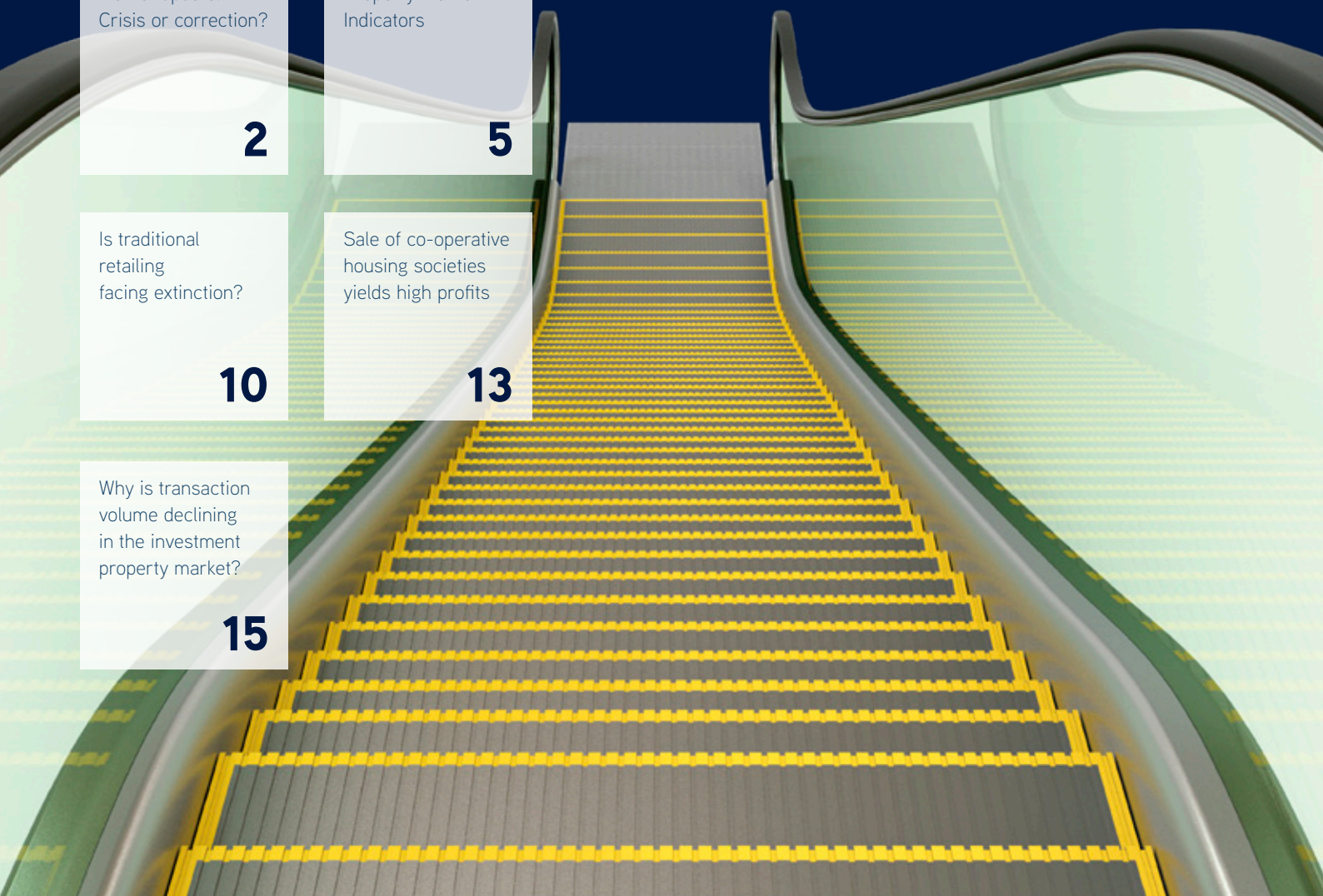
Colliers INTERNATIONAL

DENMARK

MARKET UPDATE PULS

QUARTER 4 | 2018



MARKET UPDATE: CRISIS OR CORRECTION?

By Peter Winther, CEO, Partner,
Colliers International Denmark

The investment property market has grown increasingly jittery in recent months due to concerns of a renewed global recession looming ahead. As a result, investors are again zooming in on the most liquid and stable asset classes, and the price of risk has gone up. In Denmark, growing concerns about the housing market due to stagnant ownership prices and slower transaction activity combined with sustained high levels of newbuilding have curbed investment activity in terms of newbuilding of residential rental properties. In this update, we take a look at market resilience in various scenarios.

Growing financial market uncertainty is feeding through to the property market

Global financial markets have been very jittery in recent months. Although economic trends remain favourable, indications of a slowdown are becoming stronger. Add to this all kinds of geopolitical and other concerns – rising global sovereign debt, a potential conflict with the EU concerning the financial politics of Italy, the risk of a trade war – it is not surprising that this autumn has been tough on the financial markets.

Mounting risk aversion has translated into stock market declines and driven up corporate bond yields.

In the Danish property market, uncertainty has been rising too. The Copenhagen housing market has come under increasing pressure, reflected in a pronounced slowdown in transactions involving residential commonhold units. In addition, newbuilding activity is brisk: The City of Copenhagen alone expects to see almost 6,000 residential completions within the next 12 months.

The prevailing uncertainty serves to make investors a bit more cautious. Moreover, we have seen mortgage banks adopting (slightly) tighter lending policies, another reason why transaction activity has slowed.

Property market fundamentals are healthy

Following several years of price hikes prompted by low interest rates and capital abundance, however, a certain slowdown may fundamentally be considered a sign of health.

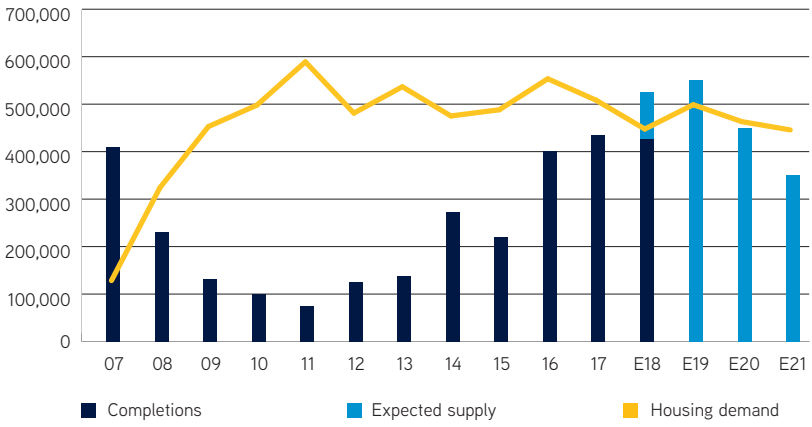
Stagnant housing prices will cause a slowdown in residential newbuilding, which has been soaring in recent years. Longer term, this will help to curb new supply. As construction activity has been largely concentrated in and around high-growth towns and cities in Denmark, a continued urbanisation trend will support a sustained increase in demand, which, longer term, will absorb the housing oversupply seen in Copenhagen and not least cities like Aarhus and Aalborg.

At the same time, employment levels are very high and consumer spending reasonably strong. This fosters demand for offices and logistics and production facilities in particular. These segments are witnessing uptrending rental prices and growth in the number of building starts. Were it not for a slowdown in residential newbuilding, the risk of overheating in the construction sector would be high.

FIGURE 1:

RESIDENTIAL SUPPLY/DEMAND FORECAST FOR COPENHAGEN (SQM)

Copenhagen in this context includes Frederiksberg

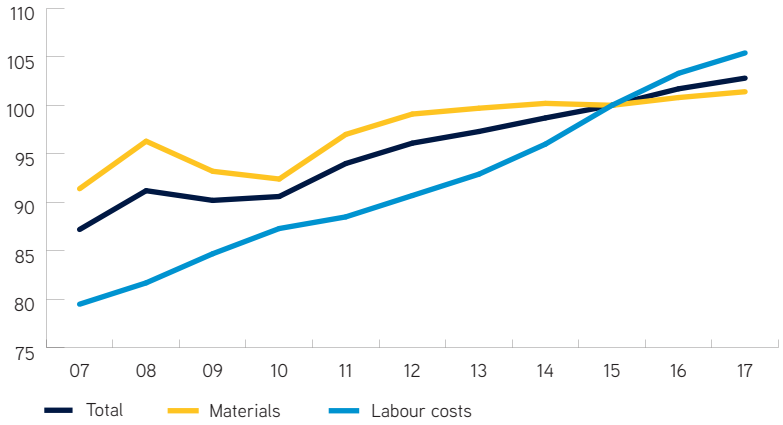


Sources: Statistics Denmark, Byggefakta and Colliers International

FIGURE 2:

CONSTRUCTION COST INDEX, FLATS

(index 100 = 2015)



Source: Statistics Denmark

Investors are ready and waiting

Director Per Hallgren of domestic property company Jeudan A/S recently stated that „the current situation has previously turned out to signify a late-cycle trend, which subsequently opened up opportunities to financially strong investors" (our translation).

This statement precisely pinpoints the wait-and-see attitude that to some extent prevails among financially strong investors in the market. Prices have risen too fast and arguably at a slightly excessive rate. However, with very substantial capital concentrations allocated to property investments, not only at Jeudan and other property companies, but also in the domestic institutional sector, there is a limit to how bad things can get.

Meanwhile, many European investors quite rightly consider it attractive to invest in the Danish market. Historically, rental prices have been relatively stable, Danish economy is strong, and the Danish mortgage system probably provides the most attractive form of property financing available.

Discounting a few investors and developers relying on the market for high-yield corporate bonds for financing, we believe that there is no risk of a market price correction giving rise to financial difficulties in the property investor community.

Domestic mortgage institutions and banks are showing sufficient prudence in terms of property and development financing, focusing on both loan-to-value ratios and liquidity. The market is therefore fairly resilient to not only a scenario with rising interest rates and inflationary trends, but also a scenario where the economy relapses into recession with increasing unemployment levels, increasing vacancy rates and downtrending rental prices.

Even such scenarios will not result in default and forced sales on any large scale. And in the basic scenario we envisage, including a moderate slowdown in growth and a stable interest rate level for at least another year, there will be more than sufficient capital to avert a major correction in the market.

> *The City of Copenhagen alone expects to see almost 6,000 residential completions within the next 12 months.*

PROPERTY MARKET INDICATORS

DEFINITIONS

First year stabilised return on investment (less deposits, less transaction costs) based on rental income less operating costs.

Vacancy data based on supply statistics by Ejendomstorvet.dk and current market supply estimates.

Prime: Prime location and quality. Either a new, modern building, or refurbished so that it is up-to-date and configured to meet future requirements. Low vacancy risk relative to market conditions.

Secondary: Average location and condition. The vacancy risk is moderate and reflects current market conditions.

The number is expected to increase in a year

The number is expected to be unchanged in a year

The number is expected to be lower in a year

OFFICE

		2017		2018				
Rent levels		**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Forecast**
DKK/sqm/year excluding operating costs and taxes								
Copenhagen	Prime	1,850	1,900	1,950	2,000	2,000	2,000	→
	Secondary	1,200	1,250	1,250	1,300	1,300	1,300	↗
Northern suburbs of Copenhagen	Prime	1,475	1,500	1,500	1,525	1,550	1,550	↗
	Secondary	950	950	950	950	950	950	→
Southern and western suburbs of Copenhagen	Prime	1,050	1,050	1,100	1,100	1,150	1,150	→
	Secondary	600	650	650	650	650	675	→
Zealand	Prime	1,100	1,100	1,100	1,100	1,100	1,100	→
	Secondary	800	800	800	800	800	800	→
Aarhus	Prime	1,400	1,400	1,400	1,400	1,400	1,400	→
	Secondary	800	850	850	850	850	900	↗
Horsens	Prime	1,100	1,100	1,100	1,150	1,150	1,150	→
	Secondary	600	600	600	600	600	600	→
Randers	Prime	850	850	850	850	850	875	↗
	Secondary	500	500	500	500	500	525	↗
Triangle Region[1]	Prime	1,050	1,050	1,100	1,100	1,150	1,150	→
	Secondary	550	550	550	550	575	600	→
Esbjerg	Prime	1,100	1,100	1,100	1,100	1,100	1,100	→
	Secondary	550	550	550	550	550	550	→
Aalborg	Prime	1,000	1,000	1,000	1,000	1,000	1,000	→
	Secondary	750	750	750	750	750	750	→
Northern Jutland	Prime	800	800	800	800	800	700	→
	Secondary	575	575	575	575	575	575	→
Odense	Prime	1,100	1,100	1,100	1,100	1,100	1,125	↗
	Secondary	750	750	750	750	750	750	↗
Funen	Prime	900	900	900	900	900	900	↗
	Secondary	550	550	550	550	550	550	↗
Net initial yields %								
Copenhagen	Prime	4.00	4.00	3.75	3.75	3.75	3.75	→
	Secondary	5.75	5.50	5.50	5.50	5.25	5.00	→
Northern suburbs of Copenhagen	Prime	4.50	4.50	4.25	4.25	4.25	4.25	→
	Secondary	6.25	6.25	6.00	6.00	5.75	5.75	→
Southern and western suburbs of Copenhagen	Prime	5.25	5.25	5.00	5.00	5.00	4.75	→
	Secondary	7.00	7.00	7.00	7.00	7.00	7.00	→
Zealand	Prime	6.25	6.25	6.00	6.00	6.00	5.75	→
	Secondary	8.25	8.25	8.25	8.00	8.00	8.00	→
Aarhus	Prime	4.50	4.50	4.50	4.50	4.25	4.25	→
	Secondary	6.00	6.00	6.00	6.00	6.00	5.75	→
Horsens	Prime	5.75	5.75	5.75	5.75	5.50	5.50	↘
	Secondary	8.00	8.00	8.00	8.00	8.00	8.00	→
Randers	Prime	6.75	6.75	6.50	6.50	6.50	6.50	↘
	Secondary	8.00	8.00	8.00	8.00	8.00	7.75	→
Triangle Region[1]	Prime	5.00	5.00	5.00	5.00	5.00	5.00	→
	Secondary	6.75	6.75	6.75	6.75	6.75	6.75	→
Esbjerg	Prime	5.75	5.75	5.75	5.75	5.50	5.50	→
	Secondary	7.25	7.25	7.25	7.25	7.25	7.25	→
Aalborg	Prime	5.50	5.50	5.50	5.50	5.25	5.25	→
	Secondary	6.50	6.50	6.50	6.50	6.50	6.50	→
Northern Jutland	Prime	7.25	7.25	7.25	7.25	7.25	7.25	→
	Secondary	8.25	8.25	8.25	8.25	8.25	8.25	→
Odense	Prime	5.25	5.25	5.25	5.25	5.00	5.00	→
	Secondary	6.75	6.75	6.75	6.75	6.50	6.50	→
Funen	Prime	7.00	7.00	7.00	7.00	7.00	7.00	→
	Secondary	9.00	9.00	9.00	9.00	9.00	9.00	→
Vacancy rates %								
Copenhagen proper		6.10	5.70	5.70	5.80	5.70	6.00	
Greater Copenhagen		11.30	11.70	11.40	11.20	10.00	10.10	
Northern Zealand		6.20	6.90	6.10	5.50	5.00	4.80	
Eastern Zealand		4.00	3.70	3.60	3.40	3.80	3.90	
Western and Southern Zealand		3.40	3.70	3.50	3.00	4.90	5.10	
Funen		9.50	10.30	8.90	7.80	7.10	8.30	
Southern Jutland		9.30	9.00	8.50	8.90	8.30	8.00	
Eastern Jutland		7.80	7.70	7.70	8.50	8.10	8.40	
Western Jutland		5.10	5.10	4.90	4.80	5.20	4.10	
Northern Jutland		6.50	5.60	5.90	5.50	5.30	5.40	

1. Triangle Region refers to Vejle, Kolding and Fredericia.

RETAIL

		2017		2018				
Rent levels		Q3	Q4	Q1	Q2	Q3	Q4	Forecast
DKK/sqm/year excluding operating costs and taxes								
High Street Copenhagen	Prime	24,000	24,000	24,000	24,000	24,000	24,000	⌄
	Secondary	9,000	9,000	9,000	9,000	9,000	8,800	⌄
Copenhagen	Prime	3,700	3,700	3,700	3,700	3,700	3,700	⌄
	Secondary	2,500	2,500	2,250	2,250	2,250	2,200	⌄
Northern suburbs of Copenhagen	Prime	3,500	3,500	3,500	3,500	3,500	3,500	⌄
	Secondary	2,500	2,500	2,500	2,500	2,500	2,400	⌄
Southern and western suburbs of Copenhagen	Prime	3,000	3,000	3,000	3,000	3,000	3,000	⌄
	Secondary	1,800	1,800	1,800	1,800	1,800	1,800	⌄
Zealand	Prime	2,800	2,800	2,800	2,800	2,800	2,600	⌄
	Secondary	1,700	1,700	1,700	1,700	1,700	1,600	⌄
Aarhus	Prime	6,750	6,750	7,000	7,000	7,000	7,000	›
	Secondary	3,000	3,200	3,200	3,200	3,200	3,400	›
Horsens	Prime	3,000	3,000	3,000	3,000	3,000	2,800	⌄
	Secondary	1,700	1,700	1,700	1,700	1,700	1,700	⌄
Randers	Prime	1,800	1,800	1,800	1,800	1,800	1,800	›
	Secondary	1,100	1,100	1,100	1,100	1,100	1,100	›
Triangle Region[1]	Prime	3,050	3,100	3,100	3,150	3,200	3,300	›
	Secondary	1,300	1,350	1,400	1,450	1,500	1,500	›
Esbjerg	Prime	3,200	3,200	3,200	3,200	3,200	3,000	⌄
	Secondary	1,750	1,750	1,750	1,750	1,750	1,650	⌄
Aalborg	Prime	4,600	4,600	4,600	4,600	4,600	4,600	›
	Secondary	2,000	2,000	2,000	2,000	2,000	2,000	›
Northern Jutland	Prime	1,600	1,600	1,600	1,600	1,600	1,600	›
	Secondary	750	750	750	750	750	750	›
Odense	Prime	5,500	5,300	5,300	5,300	5,300	5,300	›
	Secondary	2,500	2,500	2,500	2,500	2,500	2,500	›
Funen	Prime	2,450	2,450	2,450	2,450	2,450	2,450	›
	Secondary	750	750	750	750	750	750	›
Net initial yields %								
High Street Copenhagen	Prime	3.00	3.00	3.00	3.00	3.00	3.00	›
	Secondary	4.00	4.00	4.00	4.00	3.75	3.75	›
Copenhagen	Prime	4.25	4.25	4.25	4.25	4.25	4.25	›
	Secondary	5.00	5.00	5.00	5.00	5.00	5.00	›
Northern suburbs of Copenhagen	Prime	4.25	4.25	4.25	4.25	4.25	4.25	›
	Secondary	6.00	6.00	6.00	6.00	6.00	6.00	›
Southern and western suburbs of Copenhagen	Prime	5.75	5.75	5.50	5.50	5.50	5.50	›
	Secondary	6.75	6.75	6.75	6.75	6.75	6.75	›
Zealand	Prime	5.75	5.75	5.50	5.50	5.50	5.50	⌃
	Secondary	6.75	6.75	6.75	6.75	6.75	7.00	⌃
Aarhus	Prime	4.00	4.00	4.00	3.75	3.75	3.75	›
	Secondary	6.00	5.75	5.75	5.75	5.50	5.25	›
Horsens	Prime	5.50	5.50	5.50	5.50	5.50	5.50	›
	Secondary	6.75	6.75	6.75	6.75	6.75	6.75	›
Randers	Prime	6.25	6.25	6.25	6.25	6.25	6.25	›
	Secondary	7.25	7.25	7.25	7.25	7.25	7.50	⌃
Triangle Region[1]	Prime	5.00	5.00	5.00	5.00	5.00	5.00	›
	Secondary	6.75	6.75	6.75	6.50	6.50	6.50	›
Esbjerg	Prime	5.25	5.25	5.25	5.25	5.25	5.25	⌃
	Secondary	7.50	7.50	7.50	7.50	7.50	7.75	⌃
Aalborg	Prime	5.00	5.00	5.00	5.00	4.75	4.75	›
	Secondary	6.50	6.50	6.50	6.50	6.25	6.25	⌃
Northern Jutland	Prime	6.50	6.50	6.50	6.50	6.50	6.50	›
	Secondary	7.75	7.75	7.75	7.75	7.75	7.75	⌃
Odense	Prime	5.00	5.00	5.00	5.00	4.75	4.75	›
	Secondary	6.50	6.50	6.50	6.50	6.25	6.25	⌃
Funen	Prime	6.00	6.00	6.00	6.00	6.00	6.00	›
	Secondary	8.00	8.25	8.25	8.25	8.25	8.25	⌃
Vacancy rates %								
Copenhagen proper		4.00	3.50	3.60	4.40	4.60	4.00	
Greater Copenhagen		4.90	4.10	2.90	3.30	3.70	3.90	
Northern Zealand		3.60	4.50	4.40	5.10	6.00	5.00	
Eastern Zealand		6.70	6.80	6.40	6.00	6.70	6.30	
Western and Southern Zealand		4.60	4.90	4.70	5.70	6.10	6.50	
Funen		5.30	5.60	5.30	5.40	5.80	9.70	
Southern Jutland		8.40	8.50	7.50	8.20	8.80	9.70	
Eastern Jutland		5.30	5.40	5.50	5.40	5.50	5.60	
Western Jutland		5.80	6.40	6.10	6.20	6.90	6.30	
Northern Jutland		6.50	6.50	6.70	7.80	7.30	8.20	

1. Triangle Region refers to Vejle, Kolding and Fredericia.

INDUSTRIAL*

		2017		2018				
Rent levels		**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Forecast**
DKK/sqm/year excluding operating costs and taxes								
Copenhagen	Prime	575	575	600	625	650	650	→
	Secondary	350	350	375	375	375	375	↗
Northern suburbs of Copenhagen	Prime	450	450	450	475	500	500	→
	Secondary	350	350	350	350	350	350	→
Southern and western suburbs of Copenhagen	Prime	475	500	500	525	550	575	↗
	Secondary	350	350	350	350	350	375	→
Zealand	Prime	550	550	550	550	550	550	→
	Secondary	300	300	300	300	325	325	→
Aarhus	Prime	450	450	475	475	475	475	↗
	Secondary	275	275	275	275	300	300	↗
Horsens	Prime	350	350	350	350	350	375	→
	Secondary	225	225	225	225	250	250	→
Randers	Prime	300	300	300	300	300	300	→
	Secondary	200	200	200	200	200	200	→
Triangle Region[1]	Prime	425	425	450	450	450	450	↗
	Secondary	275	275	275	275	275	275	↗
Esbjerg	Prime	300	300	300	300	300	300	→
	Secondary	225	225	225	225	225	225	→
Aalborg	Prime	325	350	350	375	375	375	→
	Secondary	250	250	250	275	275	275	→
Northern Jutland	Prime	275	300	300	325	325	325	→
	Secondary	200	200	200	200	200	200	→
Odense	Prime	350	350	350	350	375	375	↗
	Secondary	250	250	250	250	250	250	→
Funen	Prime	300	300	300	300	300	300	→
	Secondary	175	175	175	175	175	175	↗
Net initial yields %								
Copenhagen	Prime	6.00	6.00	6.00	5.75	5.75	5.50	→
	Secondary	8.25	8.00	8.00	7.75	7.75	7.50	↗
Northern suburbs of Copenhagen	Prime	7.25	7.00	7.00	7.00	6.75	6.50	→
	Secondary	8.25	8.25	8.25	8.25	8.25	8.25	→
Southern and western suburbs of Copenhagen	Prime	7.50	6.75	6.75	6.50	6.50	6.25	↗
	Secondary	8.25	8.25	8.25	8.25	8.25	8.25	→
Zealand	Prime	6.50	6.50	6.25	6.25	6.50	6.25	→
	Secondary	8.25	8.25	8.25	8.25	8.25	8.25	→
Aarhus	Prime	6.25	6.25	6.00	6.00	6.00	6.00	↗
	Secondary	8.50	8.25	8.00	7.75	7.75	7.75	↗
Horsens	Prime	6.75	6.75	6.50	6.50	6.25	6.25	→
	Secondary	9.50	9.50	9.50	9.50	9.25	9.00	→
Randers	Prime	7.00	7.00	7.00	7.00	7.00	7.00	→
	Secondary	9.50	9.50	9.50	9.50	9.50	9.50	→
Triangle Region[1]	Prime	6.25	6.25	6.00	6.00	6.00	6.00	↗
	Secondary	9.50	9.50	9.50	9.25	9.00	8.75	↗
Esbjerg	Prime	7.00	7.00	6.75	6.75	6.75	6.75	→
	Secondary	9.50	9.50	9.50	9.50	9.50	9.50	→
Aalborg	Prime	7.00	7.00	7.00	6.75	6.75	6.75	→
	Secondary	8.75	8.75	8.75	8.50	8.50	8.50	→
Northern Jutland	Prime	7.75	7.75	7.75	7.50	7.50	7.50	→
	Secondary	9.50	9.50	9.50	9.25	9.25	9.25	→
Odense	Prime	6.75	6.75	6.75	6.75	6.50	6.50	↗
	Secondary	8.00	8.00	8.00	8.00	8.00	8.00	→
Funen	Prime	7.00	7.00	7.00	7.00	7.00	6.75	→
	Secondary	9.00	9.00	9.00	9.00	9.00	9.00	↗
Vacancy rates %								
Copenhagen proper		0.20	0.20	0.30	0.30	0.30	0.10	
Greater Copenhagen		3.40	3.50	4.10	3.40	3.40	2.90	
Northern Zealand		3.30	2.80	2.40	2.50	3.50	2.00	
Eastern Zealand		2.00	2.40	2.60	2.40	2.90	3.00	
Western and Southern Zealand		1.80	1.60	1.70	1.70	1.90	1.80	
Funen		2.70	1.90	1.90	1.90	1.80	1.80	
Southern Jutland		2.30	2.40	2.40	2.10	2.00	2.20	
Eastern Jutland		3.40	3.10	3.10	2.70	2.50	2.30	
Western Jutland		2.60	2.30	2.30	2.20	1.80	1.90	
Northern Jutland		1.70	1.80	1.70	1.60	1.30	1.30	

*) Industrial includes production, storage and logistics facilities, but not built-to-suit or airside logistics facilities

1. Triangle Region refers to Vejle, Kolding and Fredericia.

RESIDENTIAL**

		2017		2018				
Rent levels		Q3	Q4	Q1	Q2	Q3	Q4	Forecast
DKK/sqm/year excluding operating costs and taxes								
Copenhagen	Prime	1,950	1,950	1,950	2,000	2,050	2,100	↑
	Secondary	1,700	1,750	1,750	1,700	1,700	1,700	→
Northern suburbs of Copenhagen	Prime	1,775	1,800	1,825	1,850	1,850	1,850	→
	Secondary	1,375	1,400	1,425	1,425	1,425	1,425	→
Southern and western suburbs of Copenhagen	Prime	1,500	1,500	1,500	1,500	1,500	1,500	→
	Secondary	1,200	1,250	1,250	1,300	1,300	1,300	→
Zealand	Prime	1,500	1,500	1,500	1,500	1,500	1,500	→
	Secondary	1,200	1,250	1,250	1,300	1,300	1,300	→
Aarhus	Prime	1,650	1,650	1,650	1,650	1,650	1,650	↓
	Secondary	1,500	1,500	1,500	1,500	1,500	1,500	↓
Horsens	Prime	1,100	1,100	1,150	1,150	1,200	1,200	→
	Secondary	775	775	825	825	850	850	→
Randers	Prime	1,100	1,100	1,150	1,150	1,200	1,200	→
	Secondary	775	775	825	825	850	850	→
Triangle Region[1]	Prime	1,250	1,250	1,250	1,250	1,300	1,300	→
	Secondary	1,000	1,000	1,000	1,000	1,050	1,050	→
Esbjerg	Prime	1,100	1,100	1,100	1,100	1,100	1,100	→
	Secondary	800	800	850	850	850	850	→
Aalborg	Prime	1,350	1,350	1,350	1,350	1,350	1,250	→
	Secondary	1,075	1,075	1,075	1,075	1,075	1,075	→
Northern Jutland	Prime	1,250	1,250	1,250	1,250	1,250	1,250	→
	Secondary	775	775	775	775	775	775	→
Odense	Prime	1,400	1,400	1,500	1,500	1,550	1,450	→
	Secondary	1,150	1,150	1,200	1,200	1,250	1,100	→
Funen	Prime	1,100	1,100	1,100	1,100	1,100	1,100	→
	Secondary	850	850	850	850	850	850	→
Net initial yields %								
Copenhagen	Prime	3.75	3.75	3.75	3.75	3.75	3.50	→
	Secondary	4.00	4.00	4.00	4.00	4.00	4.00	→
Northern suburbs of Copenhagen	Prime	3.75	3.75	3.75	3.75	3.75	3.75	→
	Secondary	4.25	4.25	4.25	4.25	4.25	4.25	→
Southern and western suburbs of Copenhagen	Prime	4.00	4.00	4.00	4.00	4.00	4.00	→
	Secondary	4.50	4.50	4.50	4.50	4.50	4.50	→
Zealand	Prime	4.25	4.25	4.25	4.25	4.25	4.25	→
	Secondary	4.75	4.75	4.75	4.75	4.75	4.75	→
Aarhus	Prime	3.75	3.75	3.75	3.75	3.75	3.75	→
	Secondary	4.25	4.25	4.25	4.25	4.25	4.25	→
Horsens	Prime	4.75	4.75	4.75	4.75	4.75	4.75	↓
	Secondary	5.75	5.75	5.75	5.75	5.75	5.75	→
Randers	Prime	4.75	4.75	4.75	4.75	4.75	4.75	→
	Secondary	5.75	5.75	5.75	5.75	5.75	5.75	→
Triangle Region[1]	Prime	4.75	4.75	4.75	4.75	4.75	4.75	↓
	Secondary	6.00	6.00	6.00	5.75	5.75	5.50	→
Esbjerg	Prime	4.75	4.75	4.75	4.75	4.75	4.75	→
	Secondary	6.00	6.00	6.00	5.75	5.75	5.75	→
Aalborg	Prime	4.00	4.00	4.00	4.00	4.00	4.00	→
	Secondary	4.50	4.50	4.50	4.50	4.50	4.50	→
Northern Jutland	Prime	4.50	4.50	4.50	4.50	4.50	4.75	→
	Secondary	6.75	6.75	6.75	6.75	6.75	6.75	→
Odense	Prime	4.25	4.00	4.00	4.00	4.00	4.25	→
	Secondary	4.75	4.75	4.75	4.75	4.50	4.75	→
Funen	Prime	5.25	5.25	5.25	5.25	5.25	5.25	→
	Secondary	6.50	6.50	6.50	6.50	6.50	6.50	→

**) Rent levels and net initial yields quoted for newly built residential units of 80-100 sqm, discounting ground-floor and penthouse units.

Definitions:

Copenhagen: City of Copenhagen and City of Frederiksberg.

Northern suburbs of Copenhagen: Municipalities and cities north of Copenhagen in the Capital Region of Denmark, eg. Lyngby, Hillerød and Hørsholm, albeit excluding Hellerup, which is part of the Municipality of Gentofte but where data for Copenhagen are valid.

Southern and western suburbs of Copenhagen: Municipalities and cities south and west of Copenhagen in the Capital Region of Denmark, eg. Hvidove, Glostrup, Herlev, Ballerup.

Zealand: Large towns located on Zealand, eg. Slagelse, Ringsted, Næstved and Roskilde.

Prime residential location: e.g. Langelinie and Havneholmen in Copenhagen; Lyngby and Rødovre in Copenhagen suburbs.

Secondary residential location: e.g. Valby and Ørestad Syd in Copenhagen; Brøndby/Glostrup/Albertslund in Copenhagen suburbs.

Note that residential vacancy rates are not included as units in residential properties subject to market rent are virtually fully let.

1. Triangle Region refers to Vejle, Kolding and Fredericia.

IS TRADITIONAL RETAILING FACING EXTINCTION?

By Peter Winther, CEO, Partner,
Colliers International Denmark

Online retailing accounts for an increasing share of consumer spending. This year, Danish consumers are projected to make online purchases to the tune of DKK 125 billion, a figure that has grown by 12-15% annually in recent years.

Meanwhile, sales in traditional shops have been stagnant at best, with many retailers and sectors suffering a slump in shop turnover.

Retail vacancies on the rise

Naturally, this trend has impacted both demand for retail space and rental prices.

Provided that growth in online retailing continues to accelerate at the same rapid rate in the years ahead, retail vacancy rates are bound to increase even further. In a worst-case scenario analysis, ICP Denmark (Institute for Center Planning) estimates that up to two million sqm space out of an overall Danish retail stock of some eleven million sqm will become redundant by 2030.

This is by no means a purely Danish phenomenon. In the United States, irrespective of favourable trends in both

consumer confidence and spending, the retail sector is witnessing a substantial number of bankruptcies, and retail vacancies are soaring. Most recently, department store chain Sears, once one of the world's largest retailers, has filed for Chapter 11 bankruptcy.

Against this backdrop, it is hardly surprising that some investors think twice about investing in retail properties. Every investor knows that cyclical fluctuations in rental prices and vacancy rates are transitory phenomena with no bearing on the long-term capital growth of investment property, whereas structural changes in demand may severely impair capital growth longer term.

Traditional shops and online shops are complementary

However, we do not subscribe to the view that growth in online retailing is likely to continue unabated. The retail sector is becoming increasingly attentive to the fact that online retailing and traditional shops are more than just alternative options and competitors, but that they actually offer synergy potential and complement each other. In this context, it is interesting to note that Amazon, a global leader in online retailing, is in the process of setting up traditional shops to complement its online platform.

Many years ago, when all households had acquired a television set, and when it suddenly became possible for everyone to rent a movie from e.g. Blockbuster, the movie theatre market was hit. Indeed, some market players predicted the death of the movie theatre market. Why bother to go out to watch a movie at the theatre when you could just as well stay at home and watch the same movie at a lower price?

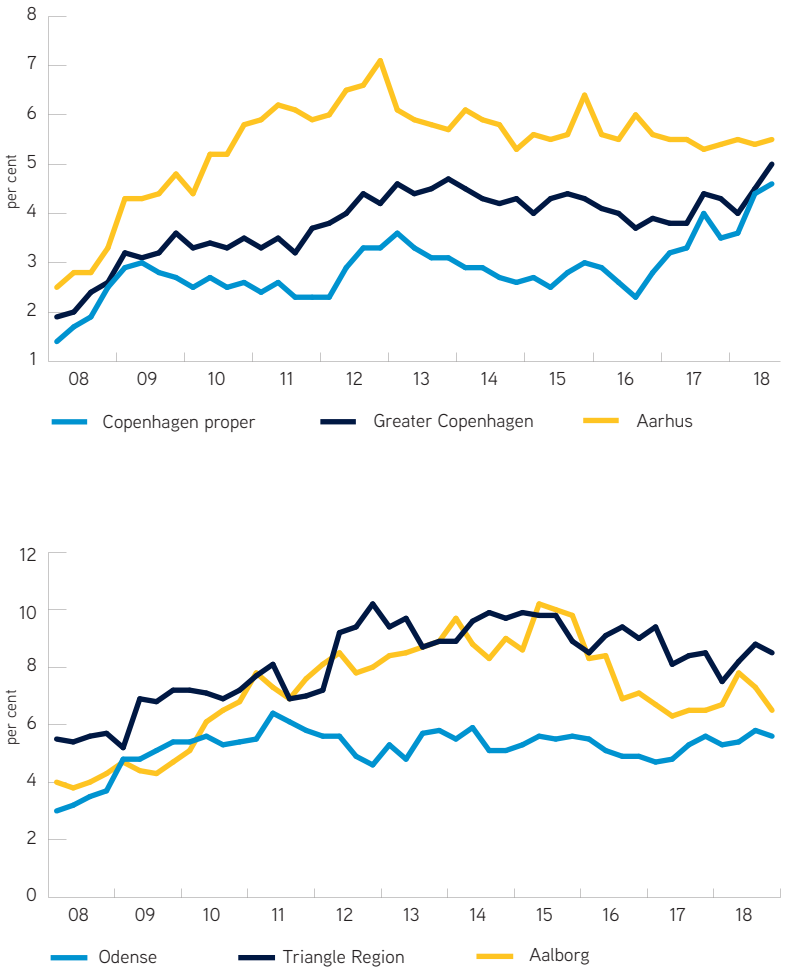
It turned out otherwise. Today, Blockbuster is history. Movies are available for streaming on the Internet, and it has become even easier to watch movies in the comfort of one's own home – you do not even have to venture out to a shop that rents out movies.

Nevertheless, the movie theatre market is flourishing as never before. Up-to-date movie theatres can provide

FIGURE 1:

RETAIL VACANCY RATES ARE GENERALLY RISING

Movements in retail vacancies in selected Danish locations.



Source: Ejendomstorvet.dk

cinemagoers with an experience altogether different from the one they get when watching a movie on the screen at home. Moreover, consumers like to spend money on leisure activities and experiences.

When metropolitan tourists visit Copenhagen to go shopping at Strøget, they could save a lot of time and money by shopping online. However, the tourists are not just looking to buy an article. They are looking to get an overall shopping experience, and the actual purchase of the article is just part of the experience.

The retail concepts that fail to be innovative will be hit hard by online retailing. This has happened to many highly esteemed retail businesses in the United States, as exemplified prominently by Sears and Toys'R'Us.

However, the retail trade of the future will not be confined exclusively to online platforms. The winners will be the retail concepts that understand that customers demand a shopping experience in traditional shops, and that online retailing and traditional shops are not merely competing against but indeed complementing each other.

What to do with the redundant retail space?

There is hardly any doubt that the shift will cause a rise in retail vacancies in some but by no means all segments. In this connection, it is worth bearing in mind that the markets of large cities in general are supported by favourable demographic trends which, all other things being equal, will have a positive spillover effect on retail occupational demand.

Well-functioning city centres and the most attractive shopping centres with strong catchment areas, a broad selection of shops and other activities, as well as the ability to be innovative and create an interesting shopping experience, will not merely survive, they will prosper with stronger footfall.

Local shopping centres in the suburbs of major cities, including those typically located next to a train station in Greater Copenhagen, have already – not only due to online retailing – lost a lot of trade with specialty goods. In many locations, grocery and convenience shops are more or less the only shops that make any sense. Such locations call for investments in urban revitalisation schemes. In many places, new local plans are underway, aiming for higher building density, not least in terms of residentials.

Abroad, multiple large-scale shop units in attractive locations along arterial roads leading into major cities are being converted for storage and logistics use, including "last mile logistics", distribution facilities for online businesses. Longer term, this trend may well catch on in Denmark – although the process will be painful seeing that logistics facilities today command a rent that typically falls substantially below the rent such facilities have been able to fetch historically if used for retail.

The biggest losers will no doubt be shops, including big box outlets, on the outskirts of small urban communities. Here, a cocktail of sustained growth in online retailing and less than favourable demographic developments may potentially seriously impact retail vacancy rates, as such locations rarely offer obvious options of redeveloping redundant retail properties for alternative uses.

All in all, the retail sector is facing major structural changes, but further mass extinction in retail is quite implausible. Shops that understand the importance of a good location and that can be innovative and provide customers with a good experience will be well-equipped to survive in future retailing. This is really not a new phenomenon, but many shops have nevertheless failed to take it seriously so far. Online retailing now forces them to do precisely that.

> *The retail concepts that fail to be innovative will be hit hard by online retailing.*

SALE OF CO-OPERATIVE HOUSING SOCIETIES YIELDS HIGH PROFITS

By Peter Kaalund Højland Petersen, Senior Associate, Colliers International Denmark

An increasing number of co-operative housing societies are opting for liquidation for the purpose of divestment in the market for residential rental properties, which continue to be in high demand by investors. A new Colliers analysis reveals that individual co-op members stand to gain DKK 1.3 million on average in a sale. However, many co-op members not only fetch a handsome profit from a sale, but also stand to obtain favourable terms as future tenants. Is this a passing whim, or will more co-operative housing societies explore the possibilities of liquidation?

Investor demand is strong for old-stock residential rental properties comprised by the rules of cost-regulated rent control. As a result, the prices of this type of property has been surging in recent years. This price trend has been one of the factors serving to whet the appetite of co-operative housing societies for liquidation for the purpose of converting the societies' properties into residential rental properties. Such sales have typically been quite a profitable business for the housing societies.

Among investors, well-located residential rental properties are considered low-risk assets due to an exceptionally low vacancy risk. Investors are therefore prepared to pay even exorbitant prices for the stable income returns generated by these converted co-operative housing societies.

According to Statistics Denmark, there are about 203,000 housing societies in Denmark today, 56% of which are situated in Copenhagen. It is therefore hardly surprising that Copenhagen has seen the highest number of transactions involving liquidation of housing society properties.

An analysis of about 30 Copenhagen co-operative housing societies indicates that the prevailing dynamics of the property market make it possible for co-op members to achieve substantial tax-exempt proceeds from a sale. Comparing average liabilities of the analysed co-operative housing societies with the prices the properties are expected to fetch as residential rental properties in today's market, each co-op member could stand to free up equity of some DKK 1.3 million on average.

Why are co-operative housing societies liquidated?

The increasing number of voluntary liquidations of co-operative housing societies is prompted not only by the fact that developments in the property market have driven up obtainable selling prices.

Post-liquidation, co-op members are entitled to continue residence as tenants. When a co-operative housing society opts for voluntary liquidation, it is converted into a residential rental property comprised by the rules of the Housing Regulation Act. The former co-op members (now future tenants) are therefore to pay rent based on cost-regulated rent, which is fixed on the basis of property operating costs, a rate of return for the owner (landlord) as well as allowances for any improvements made. The cost-regulated rent is typically much lower than common rental prices in the general housing market.

In principle, the profits gained from selling properties formerly held by co-operative housing societies are tax-exempt capital gains for the former co-op members. However, if parts of the property in question have been tenanted, the capital gains will be subject to proportionate taxation.

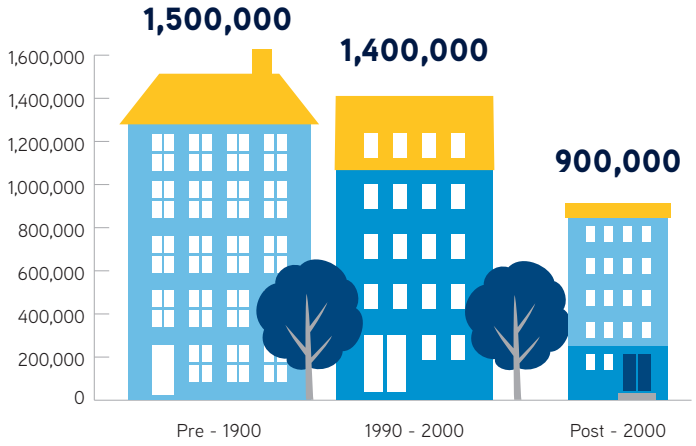
The tax-exempt capital gains obtained by the co-op members are subject to the members having used their flat as place of residence during their ownership period. In order to qualify for tax-exempt proceeds, liquidation and profit distribution must take place in the same calendar year.

The above-mentioned combination of tax-exempt capital gains and the possibility of former co-op members to remain in their home as tenants on favourable terms no doubt appeals to many co-op members. We therefore expect more co-operative housing societies to explore the possibilities of voluntary liquidation. And investor demand is expected to remain intact.

FIGURE 1:

AVERAGE EQUITY (DKK) PER UNIT IN COPENHAGEN CO-OPERATIVE HOUSING SOCIETIES, BY YEAR OF FOUNDATION

Average equity per co-op unit is estimated based on an average selling price of DKK 23,000 per sqm residential space less deductions for the liabilities of the individual co-operative housing society. Selling prices vary from property to property.



Source: Colliers International

WHY IS TRANSACTION VOLUME DECLINING IN THE INVESTMENT PROPERTY MARKET?

By Emil Helmsøe-Zinck,
Senior Associate,
Colliers International Denmark

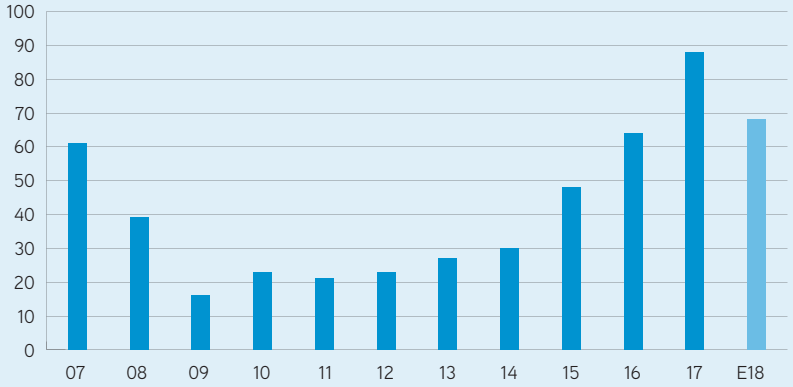
In recent years, the property market has seen unprecedented and persistent hikes in both prices and transaction volumes, but for the first time in 7 years, we foresee a decline in transaction volume. This may seem paradoxical inasmuch as investors in recent years have professed to have a stronger appetite for added exposure to real property. We have looked into the causes of the observed decline in transaction volume, asking also whether or not the ECB's decision to cease its bond purchase programme has had or is likely to have any major effect on this decline. Most likely, this is not the case, as the decline in liquidity seen in the property market this year seems to be caused by something quite different.

> *Rate hikes not expected to have any short-term effect on prices and transaction volume.*

FIGURE 1:

TRANSACTION VOLUME, DENMARK, DKK BN

Transaction volume forecast for 2018 based on actual transaction volume Q1-Q3 2018 plus transaction volume estimate for Q4.



Source: Colliers International Denmark

MARKET LIQUIDITY

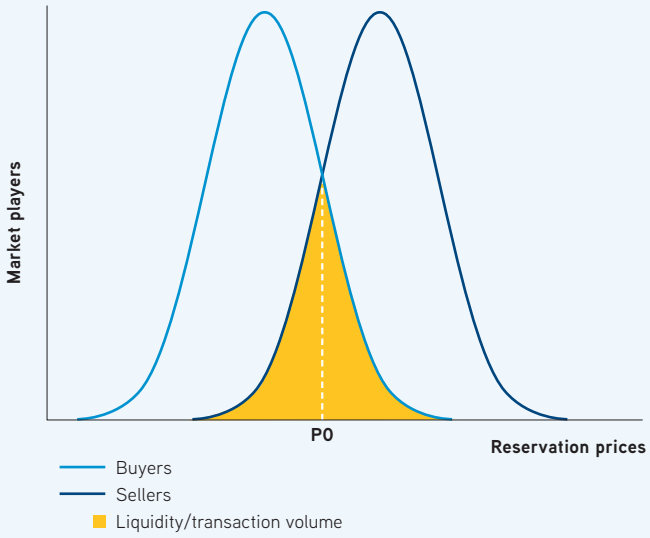
Property market liquidity may be defined in several ways and is in fact made up of a multitude of factors, including transaction volume, amount of capital allocated to property investments, saleability (measured in terms of sales costs and laydays), number of buyers in the market and their investment appetite, matching price expectations on the buy side and the sell side, etc.

In this context, liquidity is measured in terms of transaction volume[1)], and we examine how changes in price expectations on the buy side and the sell side, respectively, affect market liquidity and pricing mechanisms.

[1)] This definition may also denote the capital inflow into the market. An increase in liquidity represents an increase in capital inflow into the market.

FIGURE 2:

MATCH BETWEEN BUY-SIDE AND SELL-SIDE PRICE EXPECTATIONS IS A DETERMINANT FOR MARKET PRICING AND LIQUIDITY



Representing the number of players in the market, the y-axis may be viewed as the size of the overall market, based on the assumption that everything, in theory, is for sale at a price. The two curves are not static; for instance, they will move with cyclical changes. There is empirical evidence that market movements are procyclical, implying that price expectations on the buy side rise at a relatively steeper pace (increase in transaction volume and price levels) than on the sell side in market upturns, and vice versa (decline in transaction volume and price levels). This also supports our market observations of sellers gradually adjusting their price expectations based on sales comparables seen in the market, thus lagging behind adjustments on the buy side.

Source: Fischer et al., 2003, Controlling for the impact of variable liquidity in commercial real estate price indices.

Rate hikes not expected to have any short-term effect on prices and transaction volume

The focus on monetary policies and the interest rate level determined by both Danmarks Nationalbank and the ECB is ever-increasing. As Denmark has adopted a fixed rate policy involving a DKK-EUR peg, Danish interest rates are tied to monetary measures implemented by the ECB. The general consensus is that we will see budding signs of rate hikes in the years ahead. However, we do not believe that rate hikes driven by growth and inflation will per se have any material impact on pricing mechanisms in today's market. This is a topic that we have dealt with in another context.

ECB ceases bond purchase programme

By comparison, we find the ECB's recent announcement concerning its bond purchase programme much more interesting. In June this year, the ECB announced a 50% reduction of its bond purchase programme, followed by a complete stop at year-end 2018. Until last year amounting to as much as EUR 60bn on a monthly basis, the massive purchases have kickstarted financial markets by injecting vast amounts of capital into the system. Generally speaking, this capital has been invested in securities and other asset classes, including real property, boosting liquidity in the respective markets.

Following the stop to the purchase programme, bond market supply is expected to increase. However, the increase in supply is believed to be snapped up by institutional investors seeking to allocate more funds to bonds at the expense of other asset classes, for instance properties.

The spillover effect of the ECB's decision is not easily quantifiable across borders and markets, but by comparing the annual volume of bond purchases in 2017 (approximately DKK 5,350bn) with the same year's aggregate volume of property transactions in Europe (approximately DKK 2,390bn), you get at pretty good idea of the former scale of the purchase programme. Supposing that just 5% of the increase in bond supply is funnelled away from the property market, this suggests a decline of DKK 268bn in capital allocations, equivalent to just above 10% of overall property transaction volume.

Is a sharp drop in property market liquidity imminent?

The short answer is no. Seen in isolation, we do not expect that a stop to the ECB's purchase programme will translate into a significant drop in property market liquidity in the short term. Nevertheless, we believe that investors active in particular in more secondary markets should be on the alert and aware that this could especially affect liquidity in these markets.

Although a decline in capital allocations to real property in theory reduces liquidity, we are witnessing two market trends that support the opposite in the short term, at least in terms of prime markets in and around major towns and cities:

1. Recent years' monetary policies have served to foster substantial placement requirements, with an

increasing number of investors, including domestic pension funds, proclaiming to have an appetite for increased property market exposure. These placement requirements have implicitly caused demand to surge for prime (first-class) office and residential property in particular, where supply has been altogether unable to match demand.

Stronger competition for properties in these markets has prompted substantial price hikes in recent years, driven mainly by yield compression. Sell-side price expectations have now reached a point where investors to an increasing extent are doubting whether they will in fact achieve a satisfactory risk and illiquidity premium on their property investments.

Although capital placement requirements support a transaction volume that exceeds the present level, sell-side price expectations have in several instances seen a steeper rate of increase than those on the buy side. This ties in with the fact that, when faced with high asking prices, buyers are more prone to simply discarding given property investments. As a result, the 2018 transaction volume in the investment property market is expected to fall short of the level suggested by indicated allocations to real property.

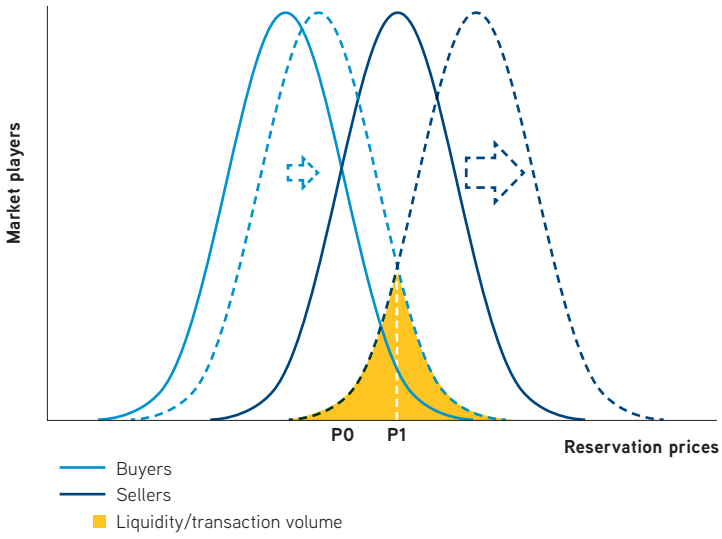
The transaction volume is therefore believed to be below the theoretically feasible level given the current amount of capital allocated to property investments. Weaker demand for property would therefore have little bearing on liquidity levels in the short term.

2. High sell-side price expectations in prime markets have increasingly caused capital allocations to spill over to secondary markets, motivated by massive capital placement requirements and the pursuit of the highest risk-adjusted returns.

This trend has been particularly prevalent in the past 18-24 months,

FIGURE 3:

HIGH SELL-SIDE PRICE EXPECTATIONS INHIBIT MARKET LIQUIDITY



Normally, property prices are driven by underlying demand and existing market competition for assets. In such a scenario, sellers make adjustments, but often not on the same scale as buyers, implying that their price expectations rise at a relatively slower rate. This effect drives up prices and increases market liquidity. However, recently we have witnessed minor price increases in combination with reduced liquidity, which contradicts the effect. Our market observations and knowledge currently suggest that sellers have been prone to increase their price expectations at a higher rate than buyers. Theoretically, this effect is illustrated in the above figure, where the outcome is precisely a higher price level and a decline in transaction volume.

when we have seen a higher transaction volume in the secondary markets for e.g. office and retail property. Investors have turned out to be more risk-tolerant than before, having now moved further out the risk curve to obtain the required returns.

Similarly, because of the spillover effect in secondary markets, these markets are expected to be hit by a possible liquidity shortfall prompted by reduced capital placement requirements. This is due to the fact that often investors in these markets have already shifted focus from their core capabilities and original investment target. As a result, they are also expected to start by removing the secondary markets from their short list.

Unrealistic price expectations inhibit liquidity, not lack of capital

As mentioned, we have this year seen a slight decline in transaction volume relative to 2017, which was a record-breaking year. Theoretically speaking, and based on past market observations, a drop in transaction volume may herald a downtrend in prices – often with some delay, for instance a lag of 12 to 24 months. So far, however, we have not seen any signs of prices actually downtrending due to a decline or stagnation in transaction volume. This suggests that the amount of capital in the market is not the current determinant of liquidity. Instead, we argue that sell-side price expectations in many instances may be seen as unrealistic based on risk-adjusted return considerations. This has inhibited liquidity levels in the past 12 months.

It is important to understand how weaker liquidity could affect the investment market as this represents a risk often overlooked in today's market because of the prevailing focus on the effect of rate hikes. Based on our assessment that interest rates will remain relatively low for some time yet, we advise investors to monitor movements in market liquidity too and to get an understanding of its drivers as this may serve to give a fairer indication of market balance and whether or not pricing may come under pressure.

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