Real Estate Market France and Sweden 2009

A RESEARCH PUBLICATION BY DG HYP

September 2009

France: Market expected to bottom out in 2010 – Sweden: Office rents fall to 2005 levels

Member of the Cooperative Financial Services Network

Deutsche Genossenschafts-Hypothekenbank

DG HYP

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France

- In France, rents and prices for office properties in all of the locations covered in this report are likely to show double-digit declines in 2009. The trend in the Hauts de Seine département should be slightly better than in the country as a whole, since this region benefits strongly from migration from Paris. There is a mixed picture in Bordeaux, where we anticipate a weaker decline in office rents than the national average because levels there are very low. In contrast, the decline in purchase prices is likely to be higher than average due to the inflated price growth of recent years.

- By the end of 2010, the office market in Paris is likely to have realised the steepest decline in prices for properties in prime locations – with a 40 per cent decline from its last peak, while in Hauts de Seine prices are only likely to have fallen by around 20 per cent by then. Marseille is virtually in line with Paris in terms of the severity of the decline in rents and prices up to the end of 2010, and is therefore the second major loser. Despite a sharp fall in rents and prices, the Hauts de Seine region is continuing to perform best in the office segment.

- In terms of rents for retail space, we generally expect a much weaker decline than for office property. Retail space in the Hauts de Seine region is also showing an above-average performance, while Marseille is also one of the biggest losers here.

Sweden

- Given the comparatively high vacancy rate and severe economic downturn, rents for office space in Sweden are likely to fall by around 20 per cent by the end of next year. We expect further losses of value in purchase prices for office space in Stockholm.

- The Stockholm market for retail properties has been affected to an above-average extent by the current recession as a result of the strong growth in supply. Rents and prices for retail properties are likely to decline by more than double the level country-wide.

France

Environment and situation

French economy likely to contract by 2,3 per cent in 2009

Although the French economy did not contract as sharply at the beginning of the year as other large Eurozone countries, no rapid recovery is expected. Whereas, in previous years, comparatively weak export activity was partly offset by robust construction activity, this engine of growth is likely to falter by the end of next year. The -1.2 per cent decline in French GDP in the first quarter was not even half the average level for the Eurozone - the German economy contracted by more than three times this level in the same period. We expect the French economy to shrink by around 2 per cent this year, while GDP in the other Eurozone countries is likely to decline by a considerably higher rate of 4 per cent.

Economic forecast France

as % compared to previous year	*2007*	*2008*	*2009*	*2010*
GDP	**2.3**	**0.3**	**–2.3**	**1.1**
Private consumption	2.4	1.0	0.6	0.9
Public consumption	1.5	1.1	1.3	2.0
Investment	6.5	0.4	–6.0	0.2
Exports	2.5	–0.5	–11.3	1.9
Imports	5.4	0.6	–9.7	1.0
Inflation rate (HICP)	**1.6**	**3.2**	**0.0**	**1.1**
Unemployment rate *(ILO)*	8.3	8.1	9.4	11.2
Budget balance *as % of GDP*	–2.7	–3,4	–7.5	–7.5

Source: DZ Bank Research

We expect only weak economic growth from year-end

We expect only a halting economic recovery in France – with weak growth rates at year-end. The willingness of French consumers to buy – private consumption still accounts for almost 60 per cent of GDP – is unlikely to decline sharply despite the marked deterioration in the labour market situation, but will stimulate only a “snail’s pace” of economic growth. Although the significant real growth in wages of recent years and the currently low inflation rates are supporting consumers’ purchasing power, the prospects for stronger growth will not improve until the labour market picks up. By the end of this year the unemployment rate is likely to have climbed to above 10 per cent and this upward trend is likely to persist until mid-2010.

Office properties

After Germany and the UK, France has the third largest market for office properties in Europe. The major significance of this segment of the commercial property market for the French economy is reflected, for example, in the fact that 30 per cent of those employed are office workers: this figure is still 7.8m. Although the absolute figure in the UK is higher (8.6m), because the total population is also larger than in France, the proportion of office workers there is around 29 per cent and thus slightly lower. The proportion of office workers in Germany is only 23 per cent.

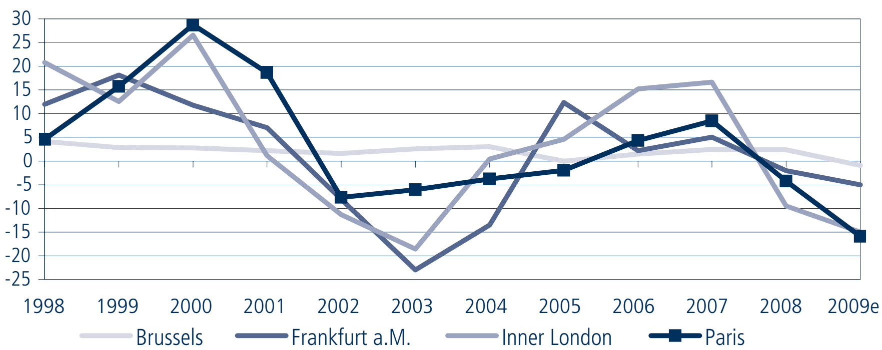
30 per cent of those in employment are office workers

Office markets in France

Because of the pre-eminent importance of the Paris region, in this report we examine the office markets of Paris and the département of Hauts de Seine (the government district). In the centrally structured France, almost all large services companies are based in the metropolitan region of Paris. We also analyse the port of Marseille in the South of France and Bordeaux the wine capital in the West.

Almost all large service providers based in Paris

Downturn in office rents across Europe



Source: Feri, DZ BANK Research, change in rents for office space in prime locations in % Y/Y

Number of office workers likely to fall in 2009 and 2010

In recent years, around three quarters of the GDP in the French economy has originated in the services sector. However, as a consequence of the financial market crisis and the recession, in the first quarter of this year economic output in the service sector was down on the same period last year for the first time since 1993. The number of office employees is therefore likely to decline by 1 to 2 per cent on the previous year's level in 2009. The decline in employment should continue into next year, clearly depressing demand for office space.

...depressing demand for office space

Office rents down across Europe in 2009

Rents for office space in prime locations are currently falling in all the major European markets (see graph). However, the severity of the decline in individual locations differs widely. While in Frankfurt, for example, a decline of only 5 per cent is expected this year, in Inner London the downturn is likely to be around 15 per cent. The centre of Paris is likely to be similarly affected. On average, in France, we anticipate a double-digit decline this year with office rents continuing to fall in 2010.

...also marked decline in France

Paris

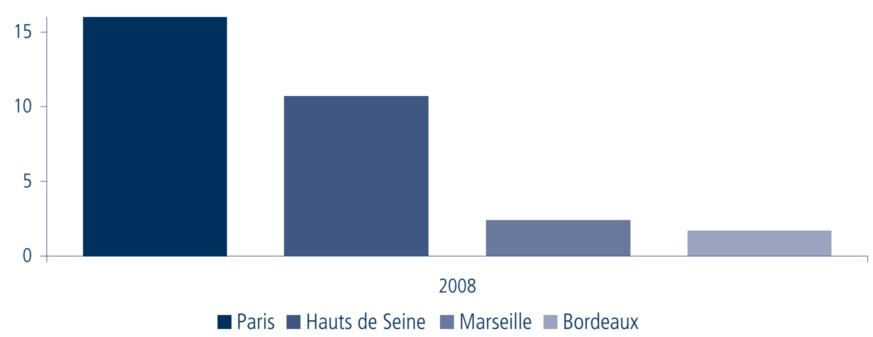
Half of French office space in Greater Paris

The main focus of the French office property market is Greater Paris, the Ile de France. According to estate agents, more than half of the office space in France is situated in this region. While some 2.2m people live in the capital city Paris, Greater Paris has five times as many inhabitants. In this chapter we consider the city region of Paris and not the metropolitan region. We analyse another important part of the metropolitan region – the Hauts de Seine district – in a separate chapter.

Economic output in the capital more than double the level country-wide

The major importance of Paris as a financial centre is reflected in the fact that per capita GDP generated in Paris is more than double the average level throughout the country. Despite this excellent economic output, in the past unemployment in the capital city has reached around 10 per cent and thus slightly above the national average.

Paris: pre-eminent supply of office space in Paris (in m sq m)



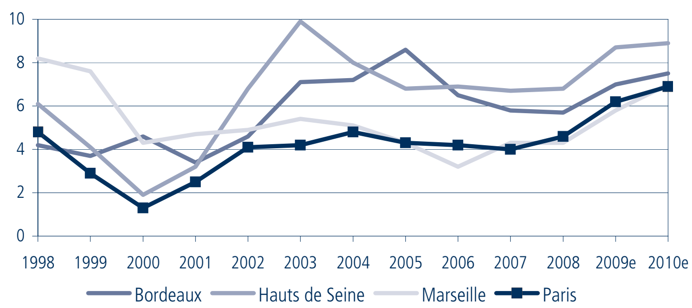
Source: Feri

Rents for office space in prime locations fell by 4 per cent last year, after having risen by 8 per cent in 2007. However, on a national comparison, Paris is still by far the most important location (see graph below), and is also one of the most expensive office locations in the world. Despite increasing slightly to 4.6 per cent, the vacancy rate was similarly low in 2008 as in Inner London and thus well below the comparable level for German office markets. Nevertheless, the price of office space was already down by around 20 per cent last year as a consequence of a sharp decline in demand and more restrictive lending.

Paris has the highest office rents nationally

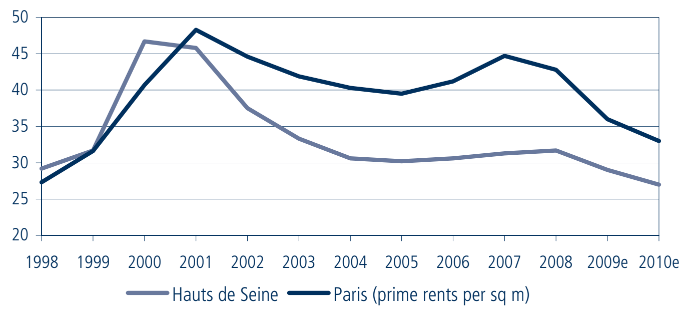
Price of office space fell by 20 per cent in 2008

Paris office: Vacancy rates on a national comparison



Source: Feri, DZ BANK Research forecast

Paris – nationally the most expensive office location (rent per sq m)



Source: Feri, DZ BANK Research forecast

In the first half of this year the economic recession continued to have an impact on office markets, with the decline in rents accelerating further. In order to save costs, on the one hand companies are moving out of very expensive locations in central Paris to much cheaper but still attractive non-central locations. Alternatively, an increasing proportion of companies, which, for reasons of prestige, do not wish to relocate to a non-central area, are scaling back their rented office space. Since, with a virtually identical vacancy rate, office space of around 18 sq m per employee in Paris is almost double the level in Inner London, the process of scaling back office accommodation is likely to continue until well into next year. This trend is of course still being driven by the shedding of jobs. The fact that demand for office space in Paris is generally falling is reflected in declining rents in non-central locations in this region too.

Companies migrating to non-central locations or reducing rented space

Given the sharp decline in demand for office space, we expect peak rents to fall by more than 15 per cent this year. The decline is likely to persist in 2010, although easing to less than 10 per cent. Overall, peak rents are likely to be almost 30 per cent below their last peak in 2007 by the end of next year. Although the vacancy rate is

Rents could fall to the end of 2010

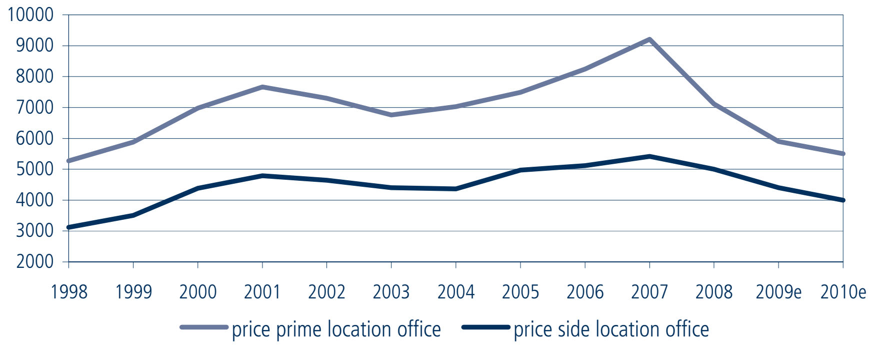
likely to have climbed above the 6 per cent level by then – which is still a low figure internationally – we expect the downward movement in office rents in Paris to have come to an end by that stage.

Lobby group plans to strengthen Paris as an international financial centre

The "Paris Europlace" lobby group is currently launching initiatives aimed at strengthening the image of Paris as an international financial centre. The French capital is to be expanded into a centre for environmental financing, where, for example, CO2 certificates will be traded. Another project is aimed at developing Paris as a centre for Islamic financing. Should the impression gained so far that Paris has withstood the financial crisis better than London and New York be confirmed, rents in Paris are likely to rise again rapidly after the end of next year.

Rents could increase again as early as 2011

Paris office: prices of prime locations fall to 1998 level



Source: Feri, DZ Bank Research

Prices of prime locations already down sharply

In contrast to rents, prices of office properties have already undergone a sharp correction in 2008, with prices down by 22 per cent on the previous year. However, because of the lack of financing and growing vacancy rates, the number of transactions for office space has continued to collapse, and the price decline this year is likely to be only slightly smaller than in 2008. Similar to office rents, the prices of office space in Paris are likely to be affected to an above-average extent by the current crisis, and the declines are likely to be higher than the national average up to and including 2010. The main contributory factor here is the very high level of prices and rents, with potential buyers or tenants moving out to the surrounding non-central areas of Greater Paris.

Hauts de Seine

Hauts de Seine: a third of office space is in La Défense

In 2008, around 20 per cent of all French office employees worked in Greater Paris (for the purposes of this report the markets of Paris and Hauts de Seine). Of these, 12 per cent related to the Paris office market and 8 per cent to the Hauts de Seine region. The "La Défense" office district – this high-rise district is regarded as Europe's largest office city – is situated in the département of Hauts de Seine. This district – which was created from scratch in the 1970s and which is therefore very well equipped in terms of infrastructure – has continued to grow in several construction phases and has been adapted to the latest technical requirements. With around 3m sq m of office space, La Défense alone accounts for a third of office space in Hauts de Seine, with 14 of the 20 largest French companies based in this office city.

2008 rents boosted by influx from Paris

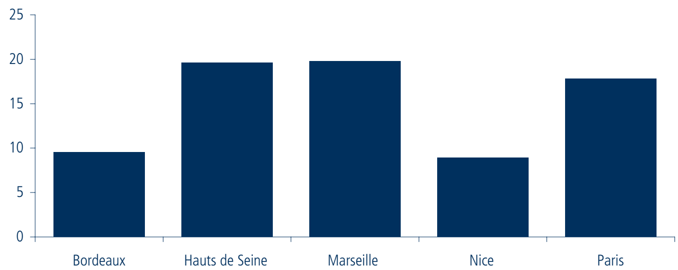
In 2008, Hauts de Seine was still showing an above-average positive trend with a modest increase of 1.2 per cent in top rents, and rents for non-central locations even increasing by 3 per cent. However, Hauts de Seine cannot escape the decline in demand for office space, even though this region has benefited from companies relocating from central Paris. The more so, given that the département west of Paris reports the highest vacancy rate of the office markets covered here at just below 7 per cent.

...but high vacancy rate nationally

Office rents down by 8 to 10 per cent in 2009

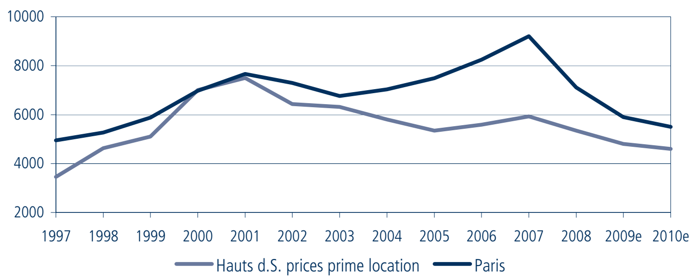
Office rents are therefore likely to fall to below EUR 30 per sq m of office space this year, indicating a decline of 8 to 10 per cent on the previous year. We expect a slightly weaker downward trend in 2010, however the ongoing reduction in the number of office employees is also continuing to have a negative impact on rents in Hauts de Seine. However, on a national comparison, this still represents an above-average positive trend. Hauts de Seine remains the second most expensive office location in France.

Hauts de Seine: Large supply of office space per employee



Source: Feri, DZ BANK Research forecast, in sq m

No surge in last price boom



Source: Feri, DZ BANK Research forecast, prices in EUR per sq m

Price decline slows in 2010

The same applies to the price trend. However, prices had already fallen by almost 10 per cent in the previous year (see graph on page 9). We expect a decline of a similar magnitude this year, and the downward trend for prime locations should come to an end in 2010 with a purchase price of around EUR 4600 per sq m. This represents a clear slackening of the price decline next year by around 4 per cent. Compared to an earlier cyclical peak in 2001, this is a decline of almost 40 per cent! The trend in prices of non-central locations in Hauts de Seine should be less dramatic, with prices there are likely to fall by only a quarter by the end of next year from their peak level of 2001.

Marseille

Port of Marseille severely affected by economic crisis

Unemployment around 20 per cent

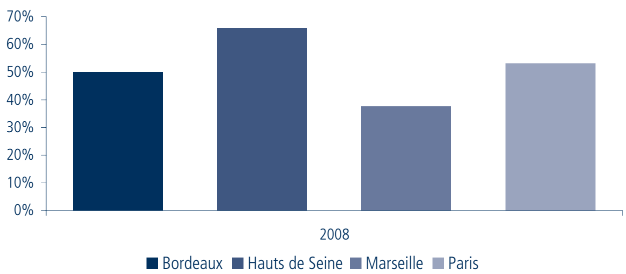
As a port, Marseille is even more severely affected by the economic crisis than many other French locations. On the one hand, the volume of trade has fallen in recent months, and on the other hand, the number of international tourists has declined sharply. The large southern French city had increasingly established itself in recent years as a landing port for large cruise ships. Irrespective of this, the Marseille labour market was already characterised in previous years by an unemployment rate of more than 20 per cent, which was double the average level country-wide. Only in the last two years has the level fallen slightly below this figure, picking up again since autumn 2008. The tense labour market situation is likely to be partly attributable to the fact that the port has virtually missed out on the trend towards the container era. As a result of the presence of large petrochemical complexes Marseille has however developed into France's largest oil port and ranks third worldwide as an oil shipment location.

Rents for all locations likely to fall sharply…

…and recovery is likely to take longer

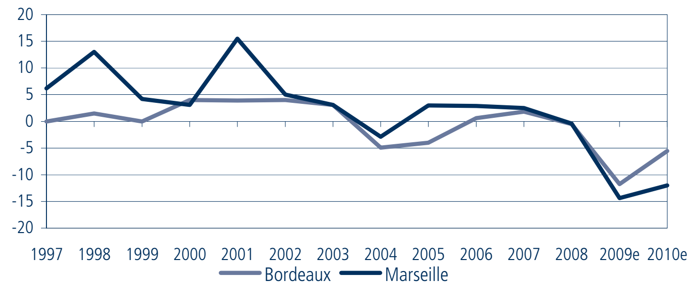
Rents for office space in prime locations stagnated in 2008 and have thus remained at around EUR 14.60 per sq m. In contrast, similar to Paris, rents for office space in non-central locations have declined slightly. In 2009, office rents for all locations are likely to have fallen by around 14 per cent – the rental market in Marseille would therefore be generally the worst affected market of the locations analysed here by only a slight margin. The recovery is also likely to take some time, since a large number of companies are closing their branches in Marseille as a result of the recession. The previously positive "TGV effect" is now likely to have been reversed: since 2001 it has been possible to get to Marseille from Paris in 3 hours via the high speed TGV rail link. In the first few years this led to the relocation of many companies in the IT sector, the aim being to create a French "Silicon Valley" based on the Mediterranean flair of this region. Most of the successful IT companies then still opened branches in Paris and are likely to leave their original location in Marseille in the current consolidation phase.

Marseille: lowest proportion of office workers



Source: Feri, DZ Bank Research

Office rents for prime locations continue to fall sharply in 2010



Source: Feri, DZ Bank Research, in EUR per sq m

Strong price declines due to renewed wave of centralisation to the Ile de France

The outlook for the price forecast for Marseille is also accordingly worse than average. In 2008, prices of office buildings in prime and non-central locations fell by almost 10 per cent, with steeper price declines reported only in the centre of Paris. In the first half of this year the downward trend is likely to have accelerated, and we therefore expect a decline of up to 20 per cent in prime locations in Marseille compared to the previous year. Office space in non-central locations is not likely to be as severely affected. However, we also expect almost double-digit price declines in 2010, since Marseille is likely to be too severely affected by the renewed wave of centralisation towards the Ile de France.

Bordeaux

Bordeaux: public sector of major importance

In Greater Bordeaux every second employee now works in an office, and the university city therefore has a visibly larger proportion of office employees than Marseille (see graph). Although Bordeaux is the wine capital, only a proportion of office space relates to the retail sector; the public sector is a very important customer in the administrative centre for the Gironde département. Although the heavy dependency on the public sector stabilises demand for office space, particularly at times of economic weakness, it also restricts the upward movement in rents and prices.

Very low rents for prime sites

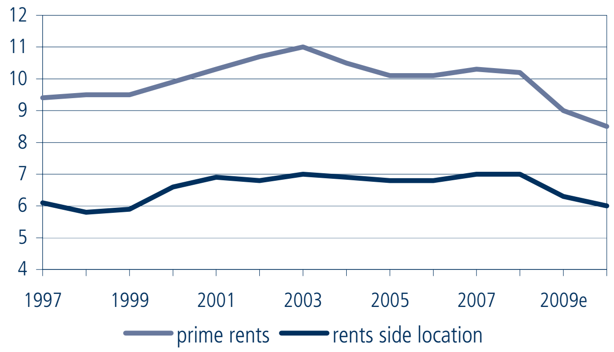
Rents for prime locations were very low in 2008, not only nationally, but also internationally at EUR 10.20 per sq m. While, in the last ten years, rents in France have increased by an average of 4 per cent, in Bordeaux they have risen only slightly by 1 per cent. In non-central locations, rents have even stagnated in this period, however at just under EUR 7 per sq m, this space is only slightly cheaper than in Marseille or, for example, in Stuttgart or Düsseldorf. At only 5.7 per cent, the vacancy rate in Bordeaux, as in most French locations, is also comparatively low, but is the second highest level of the locations examined here after Hauts de Seine (see graph in section Office Paris).

Prices down to 2000 level

…however rents have been hit by the recession

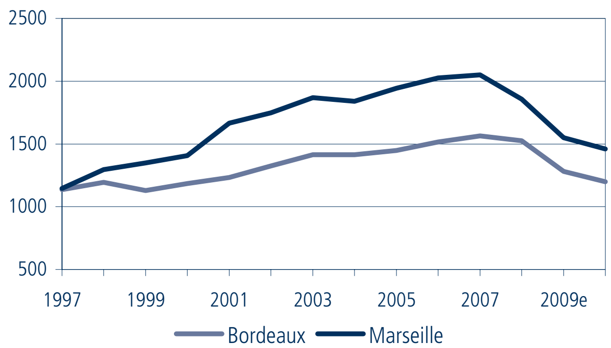
Despite the already very low rent levels, mainly attributable to the small number of international companies based there, Bordeaux is not escaping the recession. Although office rents are likely to show a double-digit decline this year, we expect the trend to be slightly better than average for the country as a whole because of the major importance of the public sector. The situation relating to purchase prices is different, since these have risen more sharply in recent years than would have been justified by Bordeaux's economic growth: we estimate that prices of office space in prime and non-central locations are falling by at least 15 per cent in 2009, i.e. more strongly than average for the country as a whole. Since the downward trend is also likely to continue next year, we expect prices of only around EUR 1200 per sq m then, in line with the 2000 level.

Bordeaux: very low office rent level…



Source: Feri

…and very low prices for office space in prime locations



Source: Feri, DZ Bank Research, in EUR per sq m

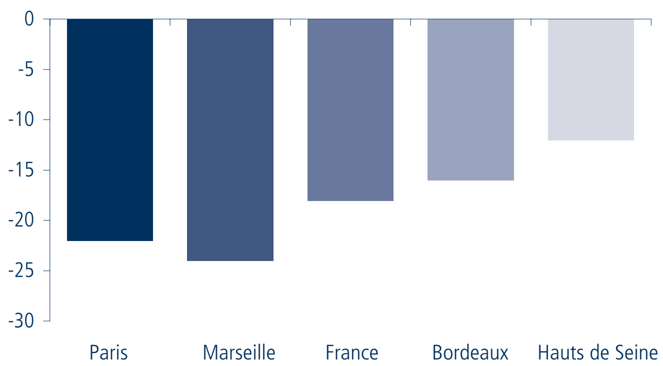
Summary office

We estimate that rents and prices for office property in all the locations in France discussed here have experienced double-digit declines this year. The trend in Hauts de Seine should have been slightly better than in the country as a whole, since this region benefits strongly from migration from Paris. There is a mixed picture for Bordeaux; because the level is very low, we anticipate a slightly weaker decline in office rents than the national average. In contrast, the decline in purchase prices in Bordeaux is likely to be higher than average because of the exaggerated price increases of recent years.

Office: double-digit decline in rents and prices likely in 2009

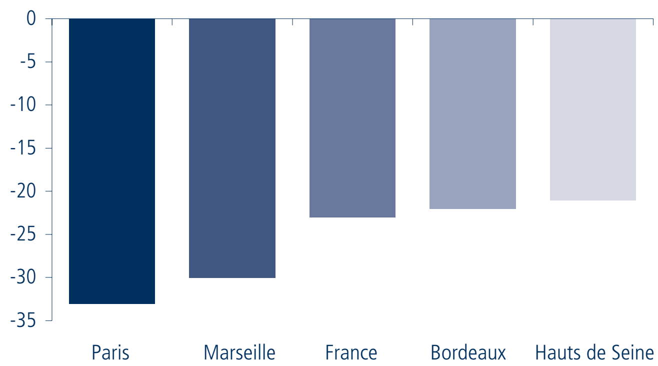
…mixed picture in Bordeaux

Decline in office prices to end of 2010 in %



Source: DZ BANK Research, unweighted average of individual segments

Decline in office rents to end of 2010 in %



Source: DZ BANK Research, unweighted average of individual segments

By the end of 2010 the Paris office market is likely to have shown the steepest price decline for office space in prime locations – with a downturn of 30 per cent since the last peak, while prices for prime locations in Hauts de Seine will probably only have fallen by around 20 per cent by then. In terms of the rate of decline since the last peak, Marseille will be virtually in line with Paris up to the end of 2010 in terms of rents and prices, and is therefore the second largest loser after Paris. Despite an equally sharp fall in rents and prices, in our view the Hauts de Seine region is still performing best in terms of office properties.

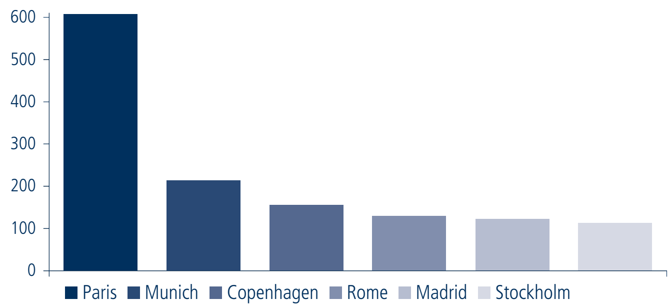
Prices and rents in Paris and Marseille show steepest decline to end of 2010

Retail properties

Highest retail rents in Europe are in Paris

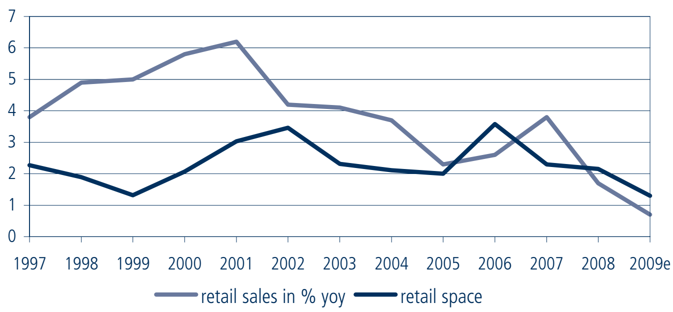
The highest rent for retail space in prime locations in Continental Europe is achieved in Paris at more than EUR 600 per sq m, with only space in Inner London even more expensive in Europe. In Germany the highest retail rent is in Munich at EUR 215 per sq m; however, many other European locations such as Copenhagen or Rome are significantly cheaper (see graph). However, of the French retail locations covered here, only Paris is in the top league internationally, while in Hauts de Seine, rents of below EUR 80 are still being achieved despite the fact that it is part of Greater Paris.

FR: Paris rents the highest in Western Europe



Source: Feri, rents for retail space in Europe in EUR per sq m

Strong growth in retail sales before 2008



Source: Feri

Rents for retail space increased visibly up to 2007

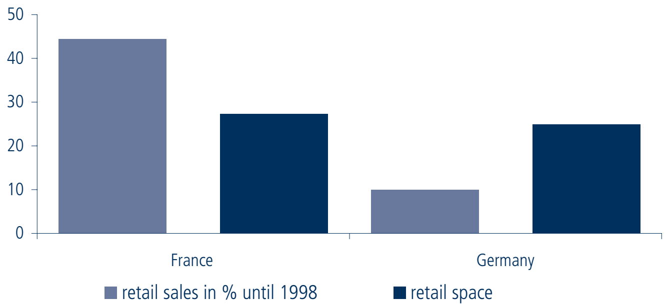
From 1997 to 2007, rents for retail space in France increased by an annual average of 3.8 per cent, while in the same period in Germany they declined slightly. However, this trend seems plausible, partly because retail sales in France were also increasing by a healthy 4.2 per cent per annum. In contrast, German retailers had to content themselves with meagre growth of just under 1 per cent. French consumers benefited here from steady growth in real wages (see graph).

Retail sales only likely to stagnate in 2009

Demand for retail space correspondingly weak

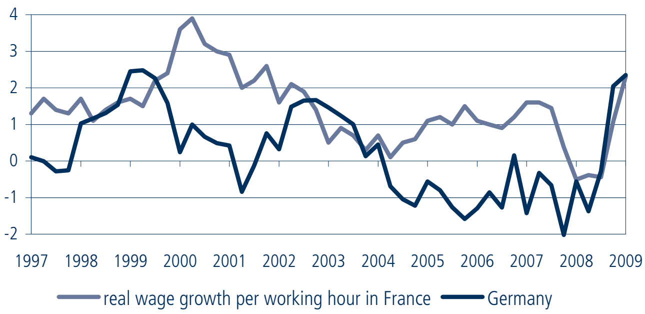
Private consumption in France is likely to virtually stagnate this year on account of rising unemployment. We also expect retail sales to only stagnate, the weakest trend since 1995. Since French retailers were already only reporting sales growth of 1.5 per cent in 2008, demand for retail space has already visibly declined. Many companies have already started to close branches in unprofitable locations, and demand for space in retail properties is correspondingly weak. However, we expect private consumption to pick up again slightly in 2010, with retail sales increasing again slightly.

FR: French retail sector outperforms Germany



Source: Feri, DZ BANK Research forecast

...thanks to steady growth in real wages



Source: DZ Bank Research

Paris

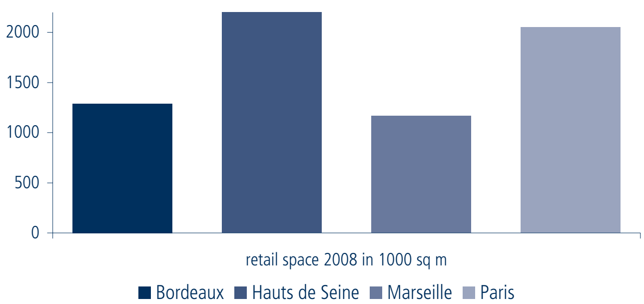
The French capital is the diva of retail locations – and rightly so, since it is home to several world-famous department stores and numerous boutiques of high profile fashion designers. The level of retail rents throughout Paris has remained high as a result of these prestigious tenants, which however also generate extravagant incomes. From 1997 to 2007, rents for prime locations increased by 8.8 per cent annually - double the country-wide average. Rents showed a particularly strong upward surge around the new millennium (see graph in Hauts de Seine section).

Paris: rents increased by almost 9 per cent annually up to 2007

However, retail sales in Paris showed only below-average growth: while, country-wide, retail sales grew by 4 per cent annually, growth of only 2.2 per cent was reported in the capital. However, available retail space grew even more weakly in this period, i.e. by only 0.9 per cent annually. This boosted the productivity of sales space in Paris, which, at an impressive EUR 7300 per sq m, has one of the highest productivity levels for retail space, and not only in France.

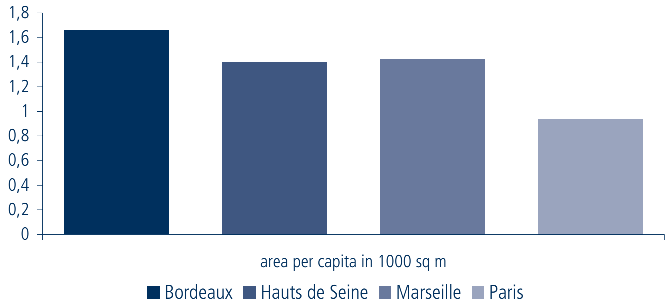
Retail space shows very high productivity

Paris: large supply of retail space



Source: Feri

...but small per capita supply



Source: DZ Bank Research

Rents likely to fall only slightly in Paris

However, rents fell slightly in 2008, and demand for retail space declined significantly in the second half. The comparatively high level of supply of retail space for the size of the population limits the favourable prospects for Paris, since the population of Paris has already been stagnating for some years and forecasts are based on a downward trend in future. However, since virtually no new space is likely to be added to the supply of properties up to the end of 2010 because of the financial crisis, we expect only a slight decline of 2 to 4 per cent in retail rents this year and next year. Since Paris, as a retail metropolis and city of haute couture, is in competition with other international locations and is consequently in a different league to the other markets in France, we regard the potential for setbacks in this market segment as limited despite the exorbitant rent levels.

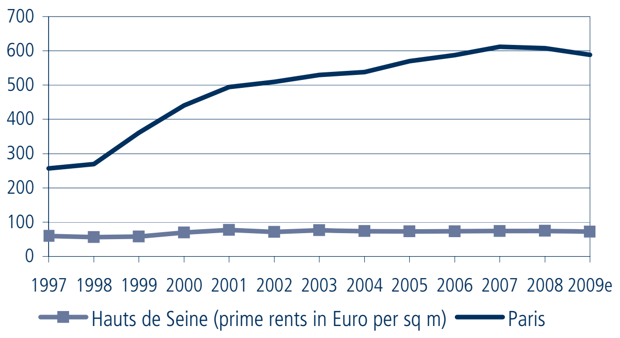
Hauts de Seine

Hauts de Seine: rent levels diverge sharply from Paris

At 2.2m sq m the Hauts de Seine district has only a slightly larger supply of retail space than central Paris. In terms of rent levels, the differences between these two neighbouring regions could however scarcely be greater: while, in Hauts de Seine, office rents are still two thirds of the level charged in Paris, retail rents are only a fraction (15 per cent) of the Paris level. In contrast, in terms of sales space productivity, i.e. retail sales per sq m of retail space, Hauts de Seine is in the same category as Paris at EUR 6100 per sq m (see graph). Productivity has deteriorated only slightly since 1998 because of comparatively strong growth in the available space.

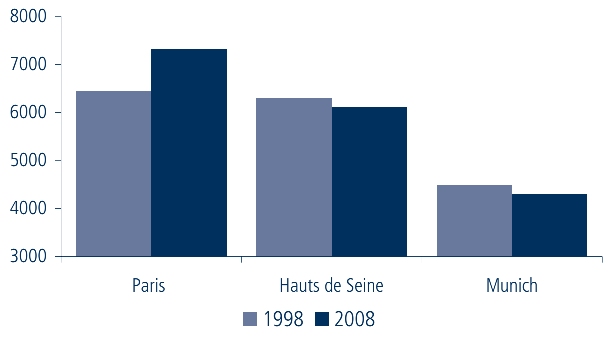
...but similarly high sales space productivity

Hauts de Seine : Rent level quite different to Paris



Source: Feri, DZ Bank Research

High sales space productivity on an international comparison



Source: DZ Bank Research, retail sales per sq m retail space

Rent level suffers from impact of Paris

Despite the high productivity, not just nationally (double the level of Bordeaux and Marseille), retail rents in Hauts de Seine have remained below the EUR 75 level in recent years. This is probably mainly due to the strong pull of prestige addresses in Paris, and despite high income levels and very high-value office locations, the level of retail rents for prime locations in Hauts de Seine is therefore lower than in other large European cities.

Rents down by 2 to 4 per cent

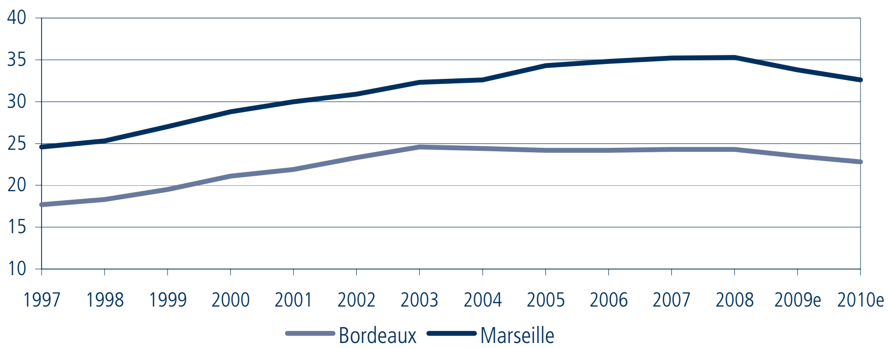
Although fewer luxury goods are sold by retailers in Hauts de Seine than in Paris, we assume that demand for retail space is being similarly hard hit as in Paris. We also expect rents in the Greater Paris region to decline by 2 to 4 per cent this year and next year. We do not regard a steeper decline, for example to below EUR 70 per sq m, as justified given the high sales space productivity.

Marseille

Upward trend in rents also at an end in Marseille

Sales space in retail properties in the port of Marseille is only half as expensive as in Hauts de Seine. Since retail sales have grown more strongly in recent years than the supply of sales space, productivity per sales space has grown slightly to EUR 3400 per sq m (see graph in Bordeaux section). However, a long-term slight upward trend in retail rents has also now ground to a halt in the Southern French city, although a modest increase of 0.5 per cent was still being recorded in 2008. Nevertheless, the increase in rents in the last ten years (3.5 per cent p.a.) was higher than the annual growth in sales space productivity (1.5 per cent p.a.). We regard this as a particular warning signal since Marseille is not only especially badly affected by the current economic crisis, but is also suffering from a high level of unemployment.

Marseille: favourable rents for retail space in prime locations



Source: Feri, DZ Bank Research

Rents in Marseille remain under pressure for the time being

We therefore expect an above-average decline of 3 to 5 per cent in rents in Marseille this year and next year. Despite the economic recovery next year, retail rents in Marseille are likely to remain under pressure after 2010.

Bordeaux

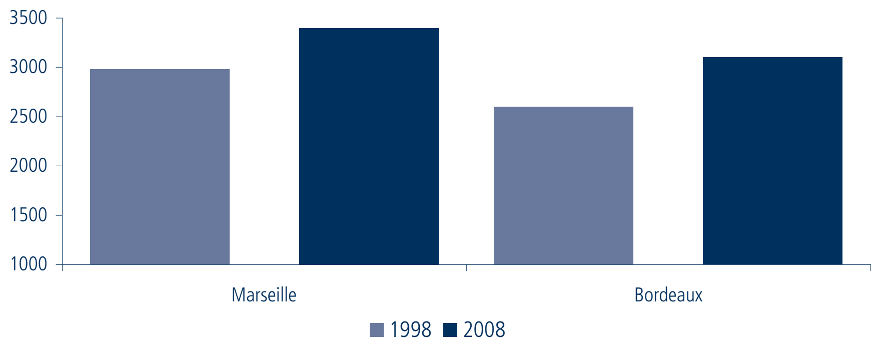
Bordeaux: very low rents and low productivity

By far the lowest rents in the locations examined here are also achieved in the retail property segment in Bordeaux at just under EUR 25 per sq m. Although, in the last ten years, sales space productivity has improved considerably to EUR 3000 per sq m (due to average growth of around 3 per cent in retail sales), this is therefore not even half of the level in Hauts de Seine.

Rents below EUR 23 by end of 2010

Consequently, it is fairly unsurprising that rents for retail space in the wine capital did not increase in the last economic upturn – since 2003 rents for a prime location have stagnated at around EUR 24 per sq m. Similar to Marseille, unemployment in Bordeaux has shown above-average growth and will not improve again before 2011. Since the supply of sales space has also increased by around 1 per cent this year as a result of building projects started before the crisis, we expect rent levels of less than EUR 23 by the end of 2010.

Bordeaux: productivity has visibly improved



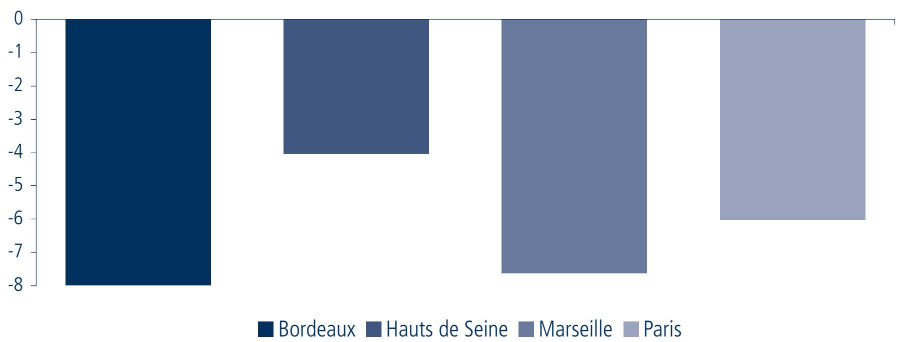
Source: Feri, DZ Bank Research, retail sales per sq m retail space in EUR

Summary retail

We expect retail rents in France to generally show a much weaker decline than office rents. Retail sales space in Hauts de Seine is also showing an above-average positive trend, while Marseille has lost ground in both market segments (see graph). The most negative trend in the retail sector relates to the outlook for Bordeaux. With a decline of around 8 per cent by year-end 2010, the worst outlook in the retail category is still much better than the best outlook for office properties (-10 per cent in Hauts de Seine).

Steepest decline in rents to end of 2010 in Bordeaux and Marseille

Retail: decline in retail rents to end of 2010 in %



Source: Feri, DZ Bank Research, decline from last peak

Sweden

Environment and situation

Sweden's exports have collapsed

Since mid-2008, economic growth in Sweden has slackened considerably, with GDP contracting strongly by 5.0 per cent in the final quarter. This was due to a sharp decline in exports, which are very important to the Swedish economy. In the first quarter of this year, GDP contracted by only 0.9 per cent, however this was due to a sharp rise in public sector consumption and a steep decline in imports. Overall, the Swedish economy seems to be slightly worse affected than France by the global economic crisis, and Swedish economic output is likely to shrink by around 5 per cent in 2009. The economic recovery which we expect from autumn is likely to get off to a slow start, since we anticipate that private consumption will decline until well into next year.

Economy likely to contract by 5 per cent in 2009

Economic forecast Sweden

in per cent compared to previous year	*2007*	*2008*	*2009*	*2010*
GDP	**2.7**	**–0.4**	**–0.5**	**0.8**
Private consumption	3.1	–0.4	–1.6	0.3
Public consumption	0.6	1.1	1.5	1.3
Investment	7.7	2.4	–15.8	–5.3
Exports	6.0	1.7	–14,9	–0.1
Imports	9.6	3.1	–17.6	–1.2
Inflation rate (HICP)	**1.7**	**3.3**	**1.8**	**2.0**
Unemployment rate *(ILO)*	6.2	6.1	9.0	9.9
Budget balance *as % of GDP*	3.8	2.5	–3.0	–3.0

Source: DZ Bank Research

Devaluation of currency will support recovery

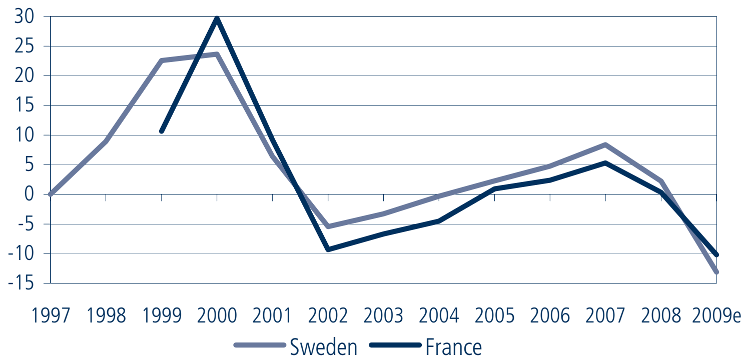
The sharp economic downturn is also having an impact on the Swedish labour market: unemployment has now risen from 6.1 per cent (mid-2008) to 9 per cent, and we expect the figure to increase by more than 100,000 this year. The Swedish krona has been devalued by around 13 per cent on a trade-weighted basis since August 2008. This supports the competitiveness of the Swedish export economy, thus promoting economic recovery; we expect Swedish GDP to increase slightly in 2010.

Office properties

Rents have increased by 70 per cent since 1997

Since 1997, rents for office space in prime locations in Sweden have increased by more than 70 per cent. There was a massive surge around the new millennium, when rents increased by more than 20 per cent in some years. However, rents also increased significantly in the last economic upturn (see graph below). In the last ten years, office rents in Sweden have risen by just over 4 per cent annually and thus slightly more strongly than in France. However, during this period, the Swedish economy grew by an annual average of 2.6 per cent and the French economy by only 1.6 per cent.

Office Sweden: change in rents as % yoy

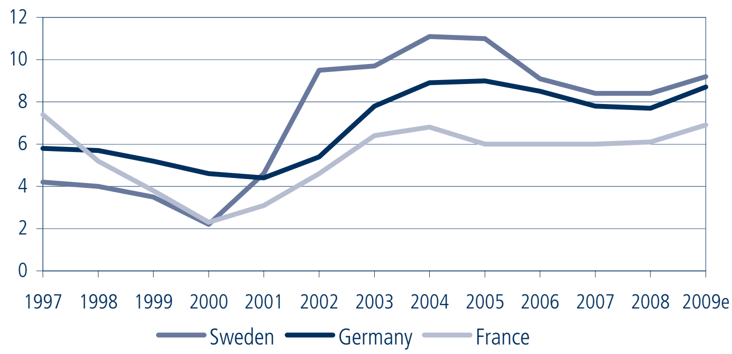


Source: Feri, Forecast DZ BANK Research

Number of office employees declining

Since autumn 2008 the upward trend in office rents has however ground to a standstill as a result of the severe economic downturn. A 2.2 per cent increase in top rents was only reported in 2008 as a result of rent rises in the first half. Sweden has also been significantly affected by the shedding of jobs throughout the whole economy. Not only because the Swedish banking sector is very heavily involved in the Baltic countries, the number of office employees is likely to fall sharply this year and next year.

Office Sweden: high vacancy rate on an international comparison



Source: Feri, Forecast DZ BANK Research

Comparatively high vacancy....

However, the outlook for the Swedish market for office space is not only being depressed by falling demand as a result of the economic recession, but also by a high vacancy rate internationally. Although, in the last three years, modest construction activity has clearly reduced the vacancy level, in 2008 the rate was still well above the French level at 8.4 per cent (see graph). For this reason, and on account of the steeper economic downturn, we expect office rents in Sweden to fall even more steeply than in France: this year rents are likely to decline by 10 to 15 per cent. We expect a further, somewhat smaller reduction of -5 to -10 per cent in 2010. Despite this marked correction, the rent level will still then be at the 2005 level.

Office rents fall to 2005 level

Stockholm

One third of all office workers are in Stockholm

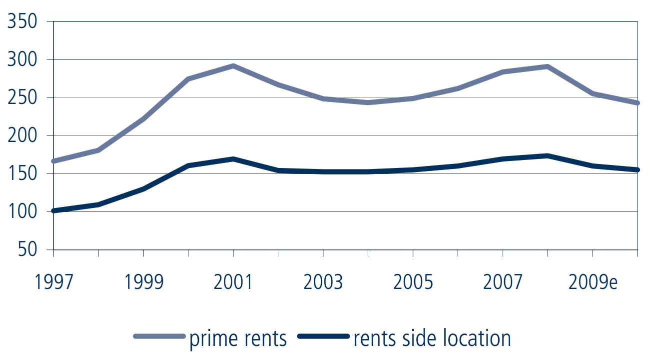
With a population of 1.9m, Stockholm is by far the largest office market in Sweden; the second largest city – Göteborg – has only 500,000 inhabitants. Roughly a third of all Swedish office employees work in the capital city Stockholm. With space of 10.6m sq m, the Stockholm office market corresponds to the office market in Hauts de Seine and is slightly smaller than the office markets of Hamburg or Munich. In contrast to Hauts de Seine, the Stockholm market is characterised by a very high vacancy rate: whereas, in Hauts de Seine, the vacancy rate is only around 7 per cent, 11 per cent of office space in the Swedish capital is still empty.

Vacancy rate around 11 per cent

Office rents should continue to fall in 2010

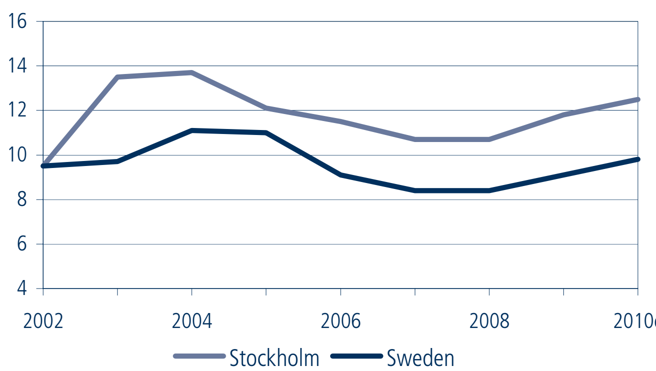
At SKR 209 (SKR 1 = approximately EUR 0.09), rents per sq m of office space in a prime Stockholm location had already returned to their 2001 level in 2008. In this phase of downturn in the European office markets, we also therefore expect a double-digit decline in top rents in Stockholm this year and another sharp decline next year. Rents in non-central locations should not fall quite as steeply, since these are benefiting to a certain extent from companies relocating to cheaper locations.

Office Stockholm: rents had reached their 2001 level



Source: Feri, DZ BANK Research forecast, rent in SKR per sq m

Vacancy rate above national average

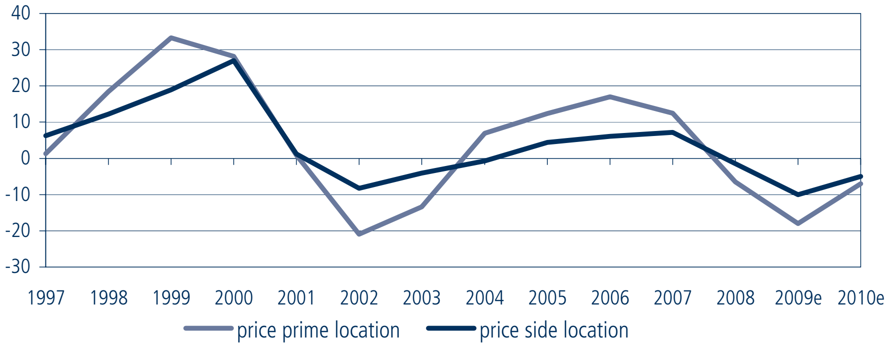


Source: Feri, DZ BANK Research forecast, in % of office space

Similar to rent prices, purchase prices for office properties in prime locations in Stockholm have risen sharply in recent years. From 2003 to 2008, prices increased by almost 50 per cent. We therefore expect the price per sq m of prime office space to fall below the SKR 50,000 level by the end of next year. Compared to the last peak, this still means a loss of value of around 30 per cent. Since the price of space in non-central locations did not rise quite as strongly during the last upturn, we also expect a decline of "only" up to 20 per cent there.

Price for prime locations likely to fall below SKR 50,000

Prices for prime locations in Stockholm already showed a clear decline in 2008



Source: Feri, DZ Bank Research, price per sq m of office space in % Y/Y

Summary office

Because of a comparatively high vacancy rate and the steep economic downturn, rents for office space in Sweden are likely to decline by around 20 per cent by the end of next year. This trend will be heavily determined by the Stockholm market, where a third of all office jobs are still situated. Purchase prices for office space in Stockholm were already declining in 2008: we expect further losses of value – of up to 30 per cent compared to the last peak.

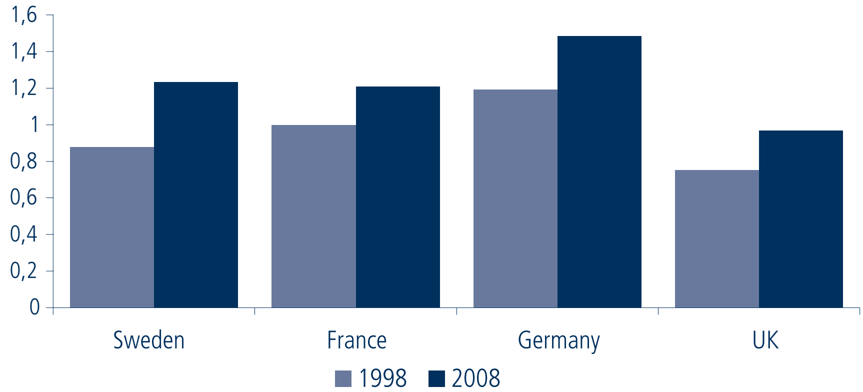
Prices likely to have fallen by up to 30 per cent by end of 2010

Retail properties

Per capita retail space has clearly increased

The supply of retail properties in Sweden has increased by around 4m sq m since 1998, which corresponds to growth of almost 50 per cent. Per capita sales space has not risen quite as strongly in the same period, increasing from 0.9 to 1.2 sq m - growth of almost 40 per cent. As a result of this very strong growth, available per capita space in Sweden is now as high as in France (see graph).

Per capita retail space has also increased in Sweden

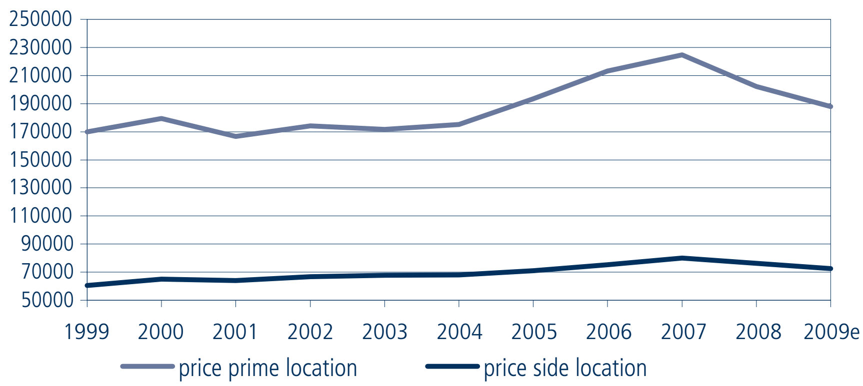


Source: Feri

...but sales space productivity has nevertheless increased

Retail rents have risen steadily in the largest economy in Scandinavia since 1998, and rents for prime locations have consequently increased by 30 per cent in this period. Retail sales have also increased sharply in the same period. However, since the available retail space in Sweden has also increased a result of the construction of a large number of shopping centres, productivity per sales space (retail sales per sales space) in retail properties has only increased slightly.

Sweden: retail space more expensive than in 2001 (price per sq m in SKR)



Source: Feri, DZ BANK Research forecast

Retail sales in Sweden are likely to decline in 2009 as a result of the sharp deterioration in the labour market. Since retail space is also growing slightly as a result of the completion of some building projects, we expect a further decline in sales space productivity this year. Both rents and also prices could decline until well into next year as a result of very weak demand for space; we expect rents to decline by 5 to 10 per cent from their last peak.

Prices and retail rents will fall until well into 2010

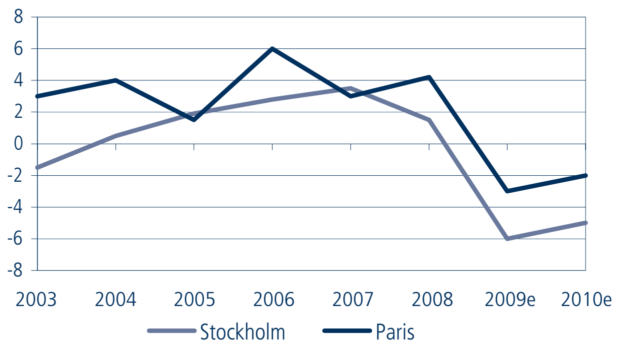
Stockholm

Fairly unsurprisingly, available per capita retail space in Stockholm of 2.3 sq m (2008) is almost twice the level throughout the country. However, it is worrying that the supply of space is also more than double the level in the shopping mecca of Paris (see graph). We therefore fear that rents and prices for retail properties in Stockholm will continue to decline beyond the year 2010. Given this large supply of space and the very subdued outlook for private consumption, we see no sign of recovery in the market in Stockholm either. By the end of next year we expect rents in prime locations to decline by up to 15 per cent and prices to fall by up to 20 per cent.

Stockholm: per capita sales space more than double the level of Paris

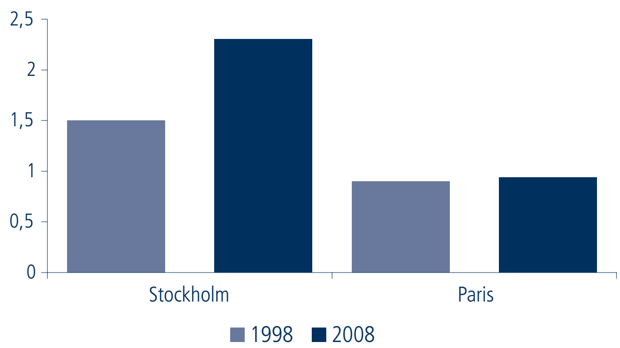
No recovery in sight

Stockholm: rents in prime locations down sharply



Source: Feri, DZ BANK Research forecast, change in rents in % yoy

…high per capita sales space is one reason



Source: Feri

Summary retail

Stockholm is suffering to an above-average extent from the current recession on account of the strong growth in available space and what are still very high levels of prices and rents. Sales space in retail properties in the capital city is therefore likely to become much cheaper. Compared to 2007, we expect rents to decline by up to 15 per cent and prices to fall by up to 20 per cent. We do not expect any rapid recovery in this important Scandinavian property location.

Stockholm retail space likely to become much cheaper

Imprint

Published by: DG HYP – Deutsche Genossenschafts-Hypothekenbank AG,
Rosenstrasse 2, 20095 Hamburg

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