

Market update

Malmö office market, Q2 2016

1 July 2016



Summary

- As Malmö continues its transformation from industrial town into a knowledge-based city, the local economy is no longer characterized by a few large companies, but by a diversity of smaller firms in a variety of sectors. As part of this transformation, employment in the service sector has risen strongly over the past decade.
- Since the completion of the Öresund Bridge in 1999 and the housing exhibition Bo01 in 2001, office development activity has been high in Malmö. Office supply levels have been elevated most years since the development boom took off in 2000. Over the next three years new office supply will equal 7% of the existing stock, which is high by Malmö standards.
- Compared to ten, five or even three years ago, Malmö's office market has a new feel. It has evolved and now has an offering that meets the current demand across the Öresund region. The most important office development areas are Västra Hamnen, Hyllie and Nyhamnen.
- Historically office rents in Malmö have been very stable over time. According to SEPREF, the prime rent level has risen to SEK 2,600 p.sqm p.a, which is all time high for Malmö. The highest rent levels are currently achieved in Hyllie and Nyhamnen. Du to high levels of new construction in the coming years, as well as economic unrest following the Brexit, prime rent is unlikely to increase significantly in the near term.
- So far this year the property investment market has been very strong across Sweden. During the first half this year SEK 9.5 bn was invested in commercial property in Skåne. This equals just over 10 % of the total transaction volume in the country. A renewed investor interest for Malmö has pushed prime office yields down to 4.75 %.
- Malmö is still struggling with very high unemployment and severe social problems, but the city has an important potential in terms of a young population. Malmö's architectural mix of new and shiny, unfinished and shabby together with its academies of art, music and theatre helps to generate a creative feel to the city, and Malmö is today often considered to be the hippest and trendiest city in Sweden.

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From industrial town to knowledge city

- Malmö's modern history is about the rise during the welfare years following WW2, followed by the economic decline in the aftermath of the oil crisis in the 1970s and the large-scale industrial closures.
- Today there is again an upturn when Malmö reinvents itself as a knowledge-based city and an attractive place to live for new generations of residents. Malmö is today a young city, with almost half of the population under the age of 35. A key contributing factor in Malmö's revival has been the economic integration with Denmark brought about by the Öresund Bridge.
- Malmö's architecture is a mix of new and shiny, unfinished and shabby. The city is facing big challenges in terms of segregation and social unrest, but still the diversity and the young population helps to create a city that often seems to be the hippest and trendiest in Sweden.

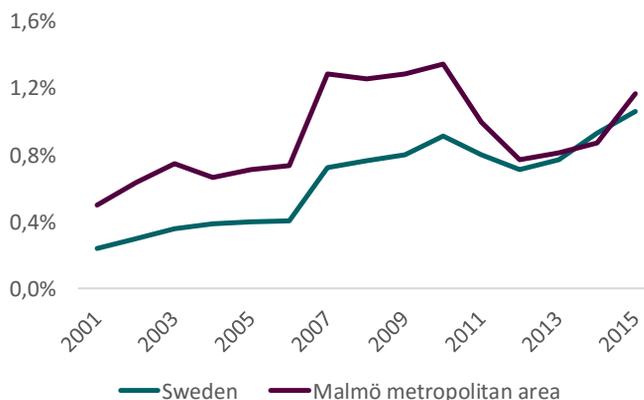
Unemployment stuck on a high level

- As Malmö is transforming, the local economy is no longer characterized by a few large companies, but by a diversity of smaller firms in a variety of sectors such as logistics, retail and wholesale trade, construction and real estate market as well as biotechnology and medical technology, environmental technology, IT and digital media.
- The unemployment rate in Skåne is higher than in Sweden as a whole, and the unemployment rate among young people and immigrants is particularly high.
- However, a survey recently made by Arbetsförmedlingen shows that the number of new jobs is increasing. Most new jobs are being created in the private service sector, trade, hotels and restaurants, IT and business services, construction and transportation. The total employment in Skåne is forecast to rise by 1.4 % this year and 1,3 % in 2017, which is high by Skåne standards. However, a large group of unemployed lacks the qualifications required to take on the vacant positions. Therefore, the unemployment rate is expected to remain on a high level, at least in the short to medium term.

Rising service sector employment

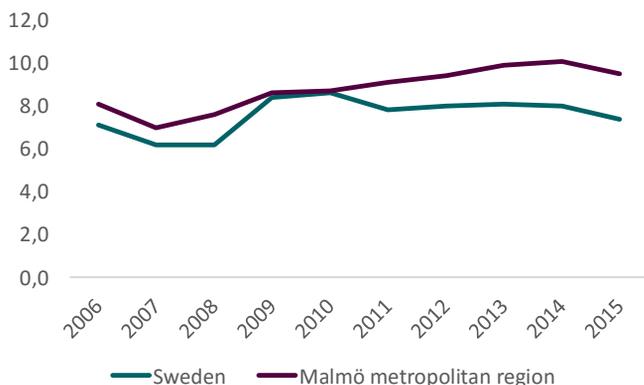
- As part of Malmö's transformation into a knowledge city, employment in the service sector has risen strongly over the past decade. See figure 3 where Service sector is defined as the sum of the three sectors Operational, and financial services companies, Information and communication, and Public administration.
- Malmö university has been crucial for the city's transformation. Just recently the Government has decided to upgrade the Swedish status of the school. Previously, while internationally the institute was a university, in Sweden it has only been granted as a 'högskola'. The university will receive its higher status in 2018. This will strengthen Skåne as a growth region, as well as Malmö's role as Sweden's third largest city.

Figure 1: Population growth



Source: Eurostat

Figure 2: Unemployment rate



Source: Eurostat

Figure 3: Service sector employment, y-o-y growth, indexed



Source: Statistics Sweden

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Office development remains elevated

- Since the completion of the Öresund Bridge in 1999 and the housing exhibition Bo01 in 2001, office development activity has been high in Malmö. First out was the home of Kockums' shipbuilding industry, Västra Hamnen (Western Harbour), that was turned from industrial into a mixed use urban location. The most notable building in this area is the Turning Torso skyscraper. Other key areas with substantial new office development schemes are Hyllie and Nyhamnen.
- This year 75,000 sq m of offices is due for completion in Greater Malmö. In 2017 another 34,000 sq m will be released to the market and in 2018 new office development is estimated at 61,000 sq m. This supply pipeline corresponds to 7 % of the existing office stock in Malmö.
- Earlier this year the 7,100 sq m office scheme eXlent Hyllie was completed. The owner is the local property company Briggen and tenants include NCC, Zumtobel and Human Entrance.
- Another development project that is due for completion this year is Skanska's Studio, located in Universitetsholmen. The building comprise a Story Hotel plus office space let to EY, United Spaces and Ackordscentralen among others.

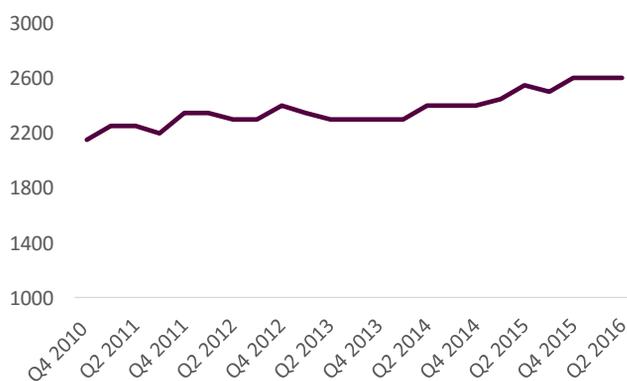
Office rents have risen slowly

- Historically office rents in Malmö have been very stable over time. This is mainly due to the high level of new office construction and also the fact that new attractive sub markets have been created.
- According to SEPREF, the prime rent level has risen to SEK 2,600 p.sqm p.a, which is all time high for Malmö. The highest rent levels are currently achieved in Hyllie and Nyhamnen.
- Du to high levels of new construction in the coming years, as well as economic uncertainties following the Brexit, the prime rent level is unlikely to increase significantly in the near term.

Strong office investment market

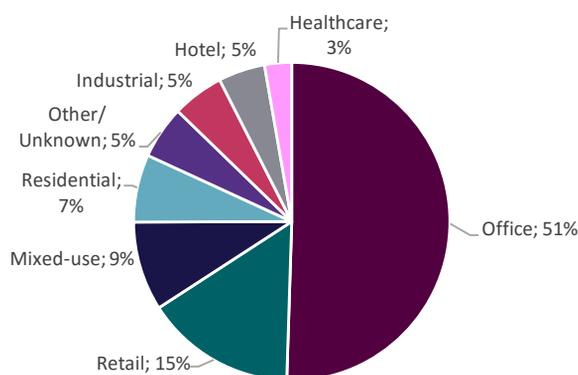
- Yield levels have been pushed down in more or less all Swedish markets and segments over the last few years, due to massive investor demand for commercial property. Prime office yields in Malmö have hardened accordingly and are now down at 4.75 %.
- During the first half this year SEK 9.5 bn was invested in commercial property in Skåne. This equals to just over 10 % of the total transaction volume in the country in H1 2016.
- SEK 5.3 bn was invested in Malmö in H1 2016. Offices was by far the most popular property segment, attracting more than haft of the investment volume. Retail followed as the second largest segment with 15 % of the total.
- The largest office deal in H1 was Ikano's purchase of the 19,000 sq m Klipporna in Hyllie for SEK 1 bn from developer Skanska.

Figure 4: Malmö office prime rent, SEK p.sqm p.a



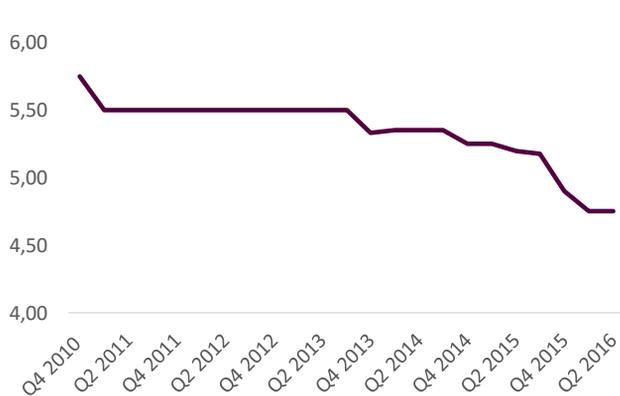
Source: SEPREF, The Swedish Property Research Forum

Figure 5: Transaction segments H1, Malmö



Source: Witalis Real Estate Consulting AB

Figure 6: Malmö prime office yield, %



Source: SEPREF, The Swedish Property Research Forum

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