

## Overview

Although slowing, Denmark's economic growth remains firmly in the positive territory, helping to bring improving conditions to the office property market. The investment market has received a boost from falling yields amid relatively stable rental values, leading to an increasing cost-to-rent ratio. As a result, sale and leaseback transactions are increasingly prevalent. On the occupier side, conditions are also picking up, supported by lower vacancy rates and moderate rises in prime rents.

## Occupier focus

The demand for prime office space in and around Copenhagen is gaining momentum, which is gradually eroding vacancy. Overall, there is building demand for offices with special character and uniqueness (industrial-like spaces, old warehouses and creative environments). Further, Denmark's slow-but-positive economy has translated into a pick-up in activity from smaller businesses which has pushed forward demand for small-and-medium-sized offices in the CBD. Although the supply of smaller offices (of less than 1,000 sq.m) in the CBD is declining, the submarkets surrounding the CBD offers suitable accommodation, helping to alleviate the gap in supply and pushing demand for these areas upward.

## Investment focus

Office investment in Denmark remained robust after what was a bounce back in terms of volumes toward the back end of 2015. Having been minor players in the market in recent years, funds returned to the Danish office market, particularly those from overseas with the larger lot size deals being completed by the likes of Standard Life and M&G. With availability of prime office space limited, yields have hardened to record lows, however a period of stabilization is expected in the short to medium term.

## Outlook

Although forecasts for economic growth in 2016-2017 have been revised downward, there is still high scope for positive growth, helping to propel sustained improvements in the office market. Occupier demand for space in the Copenhagen Area is expected to rise for all lease types. Office investment should sustain its strong-but-steady trajectory, with 2016 likely to see a high transaction activity. The office sector is benefitting from other sectors, such as retail, seeing fierce yield compression, making office investment a more attractive prospect.

## MARKET INDICATORS

### Market Outlook

Prime Rents:	Prime rents are not anticipated to see much change in 2016.	▶
Prime Yields:	The hardening experienced in 2015 is expected to hold with no other changes anticipated.	▶
Supply:	Supply conditions are expected to remain stable, with very limited space in Copenhagen's CBD.	▶
Demand:	Demand is anticipated to gain momentum as competition for CBD space remains fierce.	▶

### Prime Office rents – March 2016

LOCATION	DKR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Copenhagen (Harbour Area)	1,850	248	25.5	2.8	-0.5
Copenhagen (City)	1,650	221	22.8	0.0	0.0
Copenhagen (Ørestaden)	1,300	174	17.9	4.0	0.8
Aarhus	1,250	168	17.2	4.2	2.6
Odense	900	121	12.4	2.9	-1.1

### Prime Office yields – March 2016

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Copenhagen (Harbour Area)	4.25	4.25	5.00	5.75	4.25
Copenhagen (City)	4.25	4.25	5.00	6.00	4.00
Copenhagen (Ørestaden)*	5.50	5.75	5.75	6.75	5.50
Aarhus	5.25	5.50	5.75	6.25	5.25
Odense	6.50	6.50	6.50	6.75	5.75

NOTE: \* 6 yr record

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance

