

Overview

The Danish economy remains in positive territory, although GDP growth has slowed down a bit. Employment figures however continue to be positive, and levels are expected to grow by 60,000 by the end of 2018 helping to bring improving conditions to the office property market.

Occupier focus

There were signs that active demand for quality office space in Copenhagen strengthen further over the second quarter and supports the assumption that 2016 totals will surpass 700,000 sq,m let in 2015.

There is a clear focus on companies targeting the CBD area before supply dries up sufficiently to see an uplift in rents. Some companies are investigating options in the newer parts of Copenhagen, where larger office complexes are being developed and home to multiple tenants with common facilities – a concept that is proving to be popular. A good example is Vestas leasing 5,000 sq.m from Solstra in the new Copenhagen Towers located in Ørestaden.

Investment focus

Office investment activity in Q2 was propped up by two deals that were completed totaling €32.4 million. Institutional investors are the most active buyers within the market, who are focused on well-located properties in the CBD and Harbour submarkets in Copenhagen. However, with the availability of these premise types limited at best, investor demand faces obstacles when seeking investment product and some are now looking to more peripheral areas for opportunities. Prime yields held firm across all key locations but the expectation is that the Harbour Area and City Centre in Copenhagen may see yields move in by 25 bps over the second half of 2016.

Outlook

The economic growth forecasts have been revised downward for Denmark to 1.2% in 2016 and this is due to the fact that the economy is highly dependent on Europe demand so the increase in political and economic uncertainty following the Brexit vote is likely to impact investment in Denmark and slow growth over the medium term. This is likely to have an impact on the real estate market but the full effects of this is unknown at the moment.

MARKET INDICATORS

Market Outlook

Prime Rents:	No substantial change is anticipated for rental values as options for occupiers still exist, but are declining.	▶
Prime Yields:	Yields largely expected to remain unchanged for Q1 levels with the exception of prime product in the CBD	▲
Supply:	The declining amounts of space recorded in the CBD areas are off set by development in the periphery.	▲
Demand:	Demand is anticipated to gain momentum as competition for CBD space remains fierce.	▼

Prime Office rents – June 2016

LOCATION	DKR	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Copenhagen (Harbour Area)	1,850	249	25.7	2.8	-0.5
Copenhagen (City)	1,650	222	22.9	0.0	0.0
Copenhagen (Ørestaden)	1,300	175	18.0	0.0	0.8
Aarhus	1,250	168	17.3	4.2	2.6
Odense	900	121	12.5	2.9	-1.1

Prime Office yields – June 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	5.50	5.75	6.75	5.50
Aarhus	5.25	5.25	5.75	6.25	5.25
Odense	6.50	6.50	6.50	6.75	5.75

NOTE: * 7 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

