ODENSE 2018 BIG TOWN TO GREAT CITY
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## TRANSACTION VOLUME

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**INTRODUCTION TO ODENSE**

Strategically located

The population of Odense will grow significantly

Transformation of the city

**DANISH MACROECONOMIC ENVIRONMENT**

One of the most solid economies in Europe

Increasingly positive GDP expectations

Continuous low interest rates and higher inflation

Steady decline in the unemployment rate

**MARKET DESCRIPTION**

Residential

Office

Retail

Industrial and logistics

**CURRENT MARKET RENTS AND YIELDS**

**TRANSACTION VOLUME**
INTRODUCTION TO ODENSE

STRATEGICALLY LOCATED

Odense is the third-largest city in Denmark, and is strategically located at the very centre of Denmark, on the island of Funen. Odense has excellent infrastructure by road, rail or sea. Due to Odense’s central location, the rest of Denmark is within short driving distance. The two largest cities in Denmark, Copenhagen and Aarhus, are approximately 90 minutes away by car or train whereas it takes only 30 minutes to reach the Triangle Region.

THE POPULATION OF ODENSE WILL GROW SIGNIFICANTLY

Odense already has over 200,000 inhabitants and over the next two decades, Odense is expected to grow by over 20,500 people, equivalent to 10.2 %, according to Statistics Denmark. As seen by the graph below, the majority of the growth – 62 % - is expected to happen in the coming decade. Additionally, it should be noted that the growth rate for the city of Odense is expected to be considerably higher, due to urbanization.
TRANSFORMATION OF THE CITY

Odense is traditionally seen as primarily an industrial town, however, this has been changing in recent years as the service industry and more knowledge intensive firms establish themselves. The city of Odense has initiated several development projects in recent years, which will transform the city physically. The development of the city centre area around Thomas B. Thriges Gade is expected to create a cohesive city centre, and the construction of light rail infrastructure will make new districts more accessible and attractive. The development projects will be described in depth by the city of Odense.
DANISH MACROECONOMIC ENVIRONMENT

ONE OF THE MOST SOLID ECONOMIES IN EUROPE

With its strong public sector, low unemployment rate and positive macroeconomic outlook, Denmark is considered a safe haven for most of the world’s investors. The country is currently 1 of only 9 remaining countries in the world to hold a AAA/stable rating given by all three major rating agencies, and has further achieved a third place in the 2017 “Ease of Doing Business” ranking published by the World Bank.

CONTINUOUS LOW INTEREST RATES AND HIGHER INFLATION

Interest rates continue to remain deflated, among other things, due to ECB’s expansionary monetary policy and the British referendum, resulting in a ten-year swap rate of 1.1%. Inflation was at a flat 0% in 2016 but has started to increase and is expected to rise to 1.0% in 2017 and 1.4% in 2018. Both the low interest rates and inflation have a positive effect on the housing market as well as the purchasing power.

INCREASINGLY POSITIVE GDP EXPECTATIONS

GDP grew significantly by 0.7% q/q in Q2 2017 and the 2016 GDP growth was recently revised up to 2.0%. Analysts have subsequently positively revised their GDP expectations for the coming years. Private consumption, which has been positively affected by a strong employment growth, steadily rising disposable income and low interest rates is expected to be the primary driver over the forecast horizon.

STEADY DECLINE IN THE UNEMPLOYMENT RATE

Total employment in Denmark has been rising continuously resulting in a current unemployment rate of 4.3%. The positive development can be attributed primarily to the improved economic situation in Denmark and structural reforms imposed by the government. Despite this, the unemployment rate has risen in recent months due to an increased number of persons on immigration benefits counted as ready to work.
## MACROECONOMIC OVERVIEW

<table>
<thead>
<tr>
<th></th>
<th>DENMARK</th>
<th></th>
<th></th>
<th>EURO AREA</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP¹</td>
<td>2,0</td>
<td>2,3</td>
<td>1,8</td>
<td>1,8</td>
<td>1,7</td>
<td>1,8</td>
</tr>
<tr>
<td>Private consumption¹</td>
<td>2,3</td>
<td>2,2</td>
<td>2,1</td>
<td>2</td>
<td>1,5</td>
<td>1,6</td>
</tr>
<tr>
<td>Exports¹</td>
<td>2,5</td>
<td>3,7</td>
<td>2,4</td>
<td>2,9</td>
<td>3,8</td>
<td>4,1</td>
</tr>
<tr>
<td>Inflation¹</td>
<td>0,0</td>
<td>1,0</td>
<td>1,4</td>
<td>0,2</td>
<td>1,6</td>
<td>1,5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4,2</td>
<td>4,3</td>
<td>4,2</td>
<td>10</td>
<td>9,1</td>
<td>8,8</td>
</tr>
<tr>
<td>Public debt to GDP</td>
<td>37,7</td>
<td>36,4</td>
<td>35</td>
<td>88,9</td>
<td>87,9</td>
<td>86,4</td>
</tr>
</tbody>
</table>

Source: The Danish and European Central Bank & Oxford Economics. ¹) Real growth (y/y %).
Over the past many years, Odense has had significant population growth. This has led to an increased demand of residents which the current supply is not fully able to meet. In order to balance the residential market in Odense, the local government has approved of a total 10,000 new residential units to be constructed before 2028.

The number of residential properties offered for sale has varied significantly in recent years, which is also reflected in the fluctuating transaction volume. The general trend for 2017 has been an increasing transaction level. For residential properties, we have seen this to be the case for multi-family apartments. Our overall expectations for 2018 is that the overall increase in trade volume will continue as demand remains strong due to population growth.

Demand has caused prime yields to fall to 4.00% and prime rents to increase to 190€ per square meter per year, and we expect this trend to continue in coming years. In particular, we expect the new urban development areas and the areas close to light rail stations to experience a significant demand increase.
A recent analysis of residential demand shows that over 4,000 houses or apartments will be needed in the city in the coming decade, the types can be seen in the following table:

<table>
<thead>
<tr>
<th>CONDOMINIUMS</th>
<th>EUR PER M²</th>
<th>UNITS</th>
<th>RENTAL APARTMENTS</th>
<th>EUR PER M² PER YEAR</th>
<th>UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small apartments, 65 m²</td>
<td>3,650</td>
<td>1,061</td>
<td>Small apartments, 65 m²</td>
<td>200</td>
<td>766</td>
</tr>
<tr>
<td>Mid-sized apartments, 95 m²</td>
<td>3,550</td>
<td>966</td>
<td>Mid-sized apartments avg. 95 m²</td>
<td>200</td>
<td>236</td>
</tr>
<tr>
<td>Large apartments, 125 m²</td>
<td>3,500</td>
<td>320</td>
<td>Large apartments avg. 125 m²</td>
<td>175</td>
<td>91</td>
</tr>
<tr>
<td>Row houses, 115 m²</td>
<td>3,500</td>
<td>423</td>
<td>Row houses avg. 115 m²</td>
<td>175</td>
<td>79</td>
</tr>
<tr>
<td>Villas, 125 m²</td>
<td>3,500</td>
<td>346</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,116</strong></td>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,171</strong></td>
</tr>
</tbody>
</table>

Source: Exometric. Note: 1 EUR = 7.44 DKK
MARKET DESCRIPTION

OFFICE

Prime offices in Odense are concentrated around the harbour area and the city centre. Recently, prime rents and in particular prime yields have had significant developments, as can be seen in the following graphs.

We are seeing signs that rental activity in the office market is beginning to pick up. In particular, smaller offices under 500 m² have seen increased activity. Small businesses typically prefer to be centrally located where they become an integrated part of city life in Odense. It isn’t unusual that firms end up having to choose between an urban setting in the center of Odense with fewer available parking facilities or in the periphery of Odense with improved options. Firms that choose to move out of the center typically choose locations at one of the main roads into Odense that offer good infrastructure, visibility and a modern premises.

Office vacancy has remained above 8% in recent years, as there is a substantial oversupply of secondary offices which remain unattractive. This is reflected in the secondary yields and markets rents, which have remained at 7.00 % and 95 € per square meter per year, respectively.
MARKET DESCRIPTION

RETAIL

The Odense retail market can be divided into two separate submarkets, the pedestrian high street area in the city center and the area around the Rosengård shopping center. The shopping center has seen numerous expansions and is now Denmark’s largest shopping center. With over 150 stores, a movie theater and fitness center, the shopping center has a particularly large catchment area.

This has had a clear influence on the high street retail segment. Nonetheless, top high-street locations are thriving and the area is currently experiencing strong occupational demand.

The food and beverage business (F&B) has been very beneficial to the retail segment, as the general economic situation has improved and consumer preferences have shifted so that people choose to eat out more often. Despite the increased demand, the competition in Odense is tough and new cafés and restaurants regularly enter the market – 66 in the past year alone.

The increased demand from the F&B has contributed to the prime yield on pedestrian shopping streets to decrease to 5.00%, however standard yields, rents and vacancy levels in general have been relatively stable. Indeed, prime rents have decreased slightly throughout 2017.
MARKET DESCRIPTION

INDUSTRIAL AND LOGISTICS

Driven by global megatrends and the increasingly positive economic situation, demand for industrial and logistics premises is rising. As urbanization is happening at the same time as technological progress, last mile distribution for the growing e-commerce industry is becoming increasingly important.

In particular, we are experiencing a rise in the number of new firms establishing themselves in and around Odense. The result of the increased demand can be seen in the strikingly falling vacancy levels, from over 6% in 2012 to 1.9% currently. Additionally reflecting this development, yields have fallen to 6.75% and 7.75% for prime and standard yields, respectively. Similarly, rents have begun to increase more recently, to around 50 € per square meter per year for prime properties, and 40 for standard properties.

The area south of Odense adjacent to the E20 transnational motorway has experienced very high demand and there are very few properties available. In commercial areas north of Odense there are a variety of properties available, due to the less attractive location.
COMMERCIAL PROPERTY VACANCY

Office, Retail, Industrial and logistics

Source: Ejendomstorvet.dk
CURRENT MARKET RENTS AND YIELDS

### MARKET RENT, EUR PER M² PER YEAR

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>AREA</th>
<th>PRIME</th>
<th>STANDARD</th>
<th>BELOW AVERAGE</th>
<th>EXPECTATION FOR RENT LEVEL IN 1 YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Odense CBD</td>
<td>190</td>
<td>160</td>
<td>150</td>
<td>Higher</td>
</tr>
<tr>
<td></td>
<td>Greater Odense</td>
<td>155</td>
<td>140</td>
<td>130</td>
<td>Higher</td>
</tr>
<tr>
<td>Office</td>
<td>Odense CBD</td>
<td>150</td>
<td>100</td>
<td>80</td>
<td>Higher</td>
</tr>
<tr>
<td></td>
<td>Greater Odense</td>
<td>120</td>
<td>85</td>
<td>75</td>
<td>Higher</td>
</tr>
<tr>
<td>Retail</td>
<td>Odense CBD</td>
<td>710</td>
<td>430</td>
<td>200</td>
<td>Steady</td>
</tr>
<tr>
<td></td>
<td>Greater Odense</td>
<td>210</td>
<td>100</td>
<td>65</td>
<td>Steady</td>
</tr>
<tr>
<td>Industrial and logistics</td>
<td>Greater Odense</td>
<td>50</td>
<td>40</td>
<td>25</td>
<td>Higher</td>
</tr>
</tbody>
</table>

### NET INITIAL YIELD

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>AREA</th>
<th>PRIME</th>
<th>STANDARD</th>
<th>BELOW AVERAGE</th>
<th>EXPECTATION FOR RENT LEVEL IN 1 YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Odense CBD</td>
<td>4,00%</td>
<td>4,75%</td>
<td>5,00%</td>
<td>Lower</td>
</tr>
<tr>
<td></td>
<td>Greater Odense</td>
<td>4,25%</td>
<td>4,75%</td>
<td>5,00%</td>
<td>Lower</td>
</tr>
<tr>
<td>Office</td>
<td>Odense CBD</td>
<td>5,25%</td>
<td>7,00%</td>
<td>8,00%</td>
<td>Lower</td>
</tr>
<tr>
<td></td>
<td>Greater Odense</td>
<td>6,50%</td>
<td>8,00%</td>
<td>9,00%</td>
<td>Steady</td>
</tr>
<tr>
<td>Retail</td>
<td>Odense CBD</td>
<td>5,00%</td>
<td>5,50%</td>
<td>6,50%</td>
<td>Steady</td>
</tr>
<tr>
<td></td>
<td>Greater Odense</td>
<td>7,00%</td>
<td>8,00%</td>
<td>9,00%</td>
<td>Steady</td>
</tr>
<tr>
<td>Industrial and logistics</td>
<td>Greater Odense</td>
<td>6,75%</td>
<td>7,75%</td>
<td>8,25%</td>
<td>Lower</td>
</tr>
</tbody>
</table>

### PRIME YIELD

Compared to other Scandinavian second cities, Odense has a slightly higher prime yields. Odense office and industrial/logistics prime yields are approximately 55 basis points above the selected cities while prime retail yields are just approximately 15 basis points above.

Source: Colliers International
The total transaction volume in Odense has increased significantly in 2017 compared to the activity in 2016. Indeed, the transaction volume already exceeded the total volume for the whole of 2016 halfway through 2017. One of the key reasons for this is Niam’s acquisition of HD properties, however the general increase in the residential market in has contributed significantly to the total transaction volume.

Source: Colliers International

Note: Recent transactions lists properties sold for over 50 million DKK according to the title registration or Colliers Internationals transaction database, size is measured in square meters. Prices are quoted in million EUR, Colliers International has estimated the Odense area’s share of portfolio deals. 1 EUR = 7.44 DKK.

*The building site is 500,000m², the building is expected to be 168,000 m²