

GROWING INTEREST IN PROPERTY INVESTMENTS - FINANCING STILL A CHALLENGE

The year 2011 started off on a positive note with growing investor interest. This trend continued until June and resulted in, among other things, considerable foreign interest in investing in Copenhagen residential properties.

However, the Danish property market has persistently been fragile due to factors such as the uncertainty prevailing in the financial sector, the risk of new bank failures and, not least, the pressure on banks to reduce their exposure to the property sector. The market for owner-occupied housing was also adversely affected by the political campaigns leading up to the general election bringing along uncertainty with respect to the cost of owning your own home.

Activities in the property sector saw a sharp drop over the summer because of the renewed international instability spurred by the debt situation in southern Europe and in the United States. Investors backed out, adopting a "wait and see" approach, and access to financing was made even more difficult, also for financially strong investors. At the same time, the market came under pressure from banks and distressed investors trying to sell off property.

The situation has stabilised during September/October, and institutional and private investors are once again showing an interest for investing in property projects. Especially the general expectation of an extended period of relatively low interest rates makes it attractive to invest in property compared with many other asset classes; especially when considering the stable return and the inflation protection offered. Unless we see new severe economic downturns, Sjælsø expects investor interest in prime-location rental property to stay strong going forward.

The biggest challenge faced by the property sector is the difficult access to financing; a result of a generally weakened financial sector which is mainly focused on bringing down the volume of loans, especially within real estate. The weakening of the financial sector is affecting Sjælsø, but Sjælsø's customers are equally affected, being unable to secure the required financing and hence the basis of acquiring property projects.

The Board of Directors and the Management Board believe that Sjælsø will continue to have a business platform. During the present unstable financial and market conditions, however, the completion of Sjælsø's projects relies on close collaboration with property investors and banks.

MIXED OUTLOOK FOR THE DANISH MARKET

Recent years' financial crisis has affected the Danish property market more severely than Sjælsø's other markets. The Danish property market remains fragile and exposed to considerable risk due to renewed instability and restraint, and the financial sector is still heavily impacted by the crisis and continually seeks to reduce the volume of loans to the property sector. Generally, this makes it very difficult for both project developers and property investors to obtain financing for property projects.

As mentioned previously, Sjælsø expects the risk of economic downturn and the financial instability to adversely affect conditions in the property sector in the short term and result in limited sales of new projects for the remainder of 2011 as well as 2012. The risk of prolonged weak growth may cause businesses to exercise more restraint in establishing new office facilities.

The residential market is seeing ambiguous trends: Investor interest in residential rental property in prime locations has regained its strength, driven by an expectation of continued population growth in major cities among other factors. The turnover on the market for owner-occupied housing has, however, declined, intensified by the renewed political instability concerning housing costs. The number of owner-occupied housings for sale and selling period have thus increased. These trends are, however, subject to substantial geographical variation. The number of owner-occupied housings for sale is relatively small in the Aarhus and the Greater Copenhagen areas compared with the rest of Denmark.

POPULATION GROWTH IN COPENHAGEN CONTINUES

The population of the City of Copenhagen grew by more than 11,000 in 2010. During the period 2006-2010, the population grew by 40,000. This trend has continued in 2011.

The annual net population inflow into Copenhagen of around 10,000 reflects significantly higher gross inflow and outflow. Each year, some 50,000 people move to the City of Copenhagen, and make a choice of housing.

With an average of approx. two occupants per residential unit, there will be a substantial need for new constructions in the coming years, and the apartments built in the past few years have been almost fully absorbed by the market, being occupied by either owners or tenants.

The population inflow and population growth thus provide attractive opportunities for developing and selling residential projects, whether for letting purposes or for owner occupation. Sjælsø expects only a minor proportion of the coming years' apartment projects to be owner-occupied residential projects.

A much greater part of a project must now be sold prior to project initiation, and home buyers cannot as easily as before sign agreements to buy new homes before they have sold their current homes.

Thus, for the City of Copenhagen to continue growing, financially strong investors must exploit the attractive investor opportunities in the market, including the opportunity to temporarily let the apartments and subsequently sell them. Low construction prices combined with a high degree of certainty that properties can be let, due to the continuous population inflow, also secure investors a solid basis for their investments.



Photo: Prästgården in Sweden

RESIDENTIAL MARKET IN SWEDEN

The Swedish residential market has not seen the same slowdown as witnessed on the Danish property market.

The Swedish residential market, especially in the Stockholm area, continues to be stable, some of the reasons being continued population growth in the area and the fact that the Swedish property market has not to any particular degree been marked by the speculation or bulk buying of residential units seen in other markets.

The terraced housing projects in Malmö and Gustavsberg are almost fully sold, and the projects are under construction.

THE PAMPAS PROJECT IN STOCKHOLM

In 2008, Sjølsø acquired a 25,000 sqm office property on the Pampas Marina in the municipality of Solna, Stockholm. In addition to the actual office premises, the property comprises a large site which, when fully developed, is expected to provide an opportunity for projects totalling approx. 100,000 sqm, thus creating an attractive new residential and commercial area in Stockholm. The project is located close to central Stockholm, overlooking Pampas Marina and Ulvsundasjön, with easy access to the subway and the general road network. A new local development plan for the area is expected in 2013.

In 2010, 75% of the project was sold to the large Swedish housing association HSB. Sjølsø now cooperates with HSB on the planning and further development of the project.

Sjølsø will regularly assess whether it will be favourable to participate in the completion of the project or to sell it at project level.

THE RETAIL MARKET IN SWEDEN

Sjølsø's largest business area in Sweden continues to be the development of retail projects. Sweden has also been affected by a general decline in consumer confidence in the retail trade. However, the fall in demand is especially affecting the sale of luxury goods and large consumer durables, while demand in discount and grocery stores, which influences the tenant types for which Sjølsø primarily develops retail projects, is somewhat more stable.

Prime location projects are still in demand among tenants in the retail market, and letting efforts are currently taking place with respect to several projects with a view to selling and implementing the projects within 6-12 months.

Demand from private investors has, however, declined due to stricter capital requirements. Therefore, Sjølsø focuses on selling retail projects to institutional investors who can also participate in forward funding solutions.

Sjølsø has an attractive pipeline of retail projects in Sweden, which continuously is expanded, among others through options for locations in demand by tenants.

THE RETAIL MARKET IN NORWAY

In Norway, Sjølsø focuses primarily on the development of new retail projects in the southern part of the country, which has the highest population density and the strongest demand for retail projects.

In recent years, the Norwegian market for retail projects has seen positive developments, supported by the strong Norwegian economy. The investors for Sjølsø's projects in Norway primarily consist of local Norwegian investors.

Several projects are attracting good tenant interest, and Sjølsø expects to be able to sell additional projects in Norway over the next 6-12 months, as and when local planning issues are clarified. The development of projects in Norway is based on options to buy building sites.

THE RETAIL MARKET IN FINLAND

In Finland, Sjølsø focuses primarily on retail project development.

The market for retail construction in Finland remains in reasonable shape with relatively low vacancy rates and strong activity in the major cities. Finland's eurozone membership leads to strong interest in the Finnish market among international investors. Construction activity is most pronounced in the southern part of the country, and cross-border trade in areas neighbouring Russia is creating substantial trading activity.

Local, Nordic retail chains dominate the market. In Finland, Sjølsø focuses on further developing remaining phases in areas in which Sjølsø has successfully developed projects in recent years.

The third phase of the Vantaa project, which is let to Byggmax and others, was sold to an international investor in the third quarter of 2011.

ACTIVITIES IN POLAND TO BE CLOSED DOWN

As announced in Sjølsø's interim report for 2011, the group's activities in Poland will be closed down.

The Polish market continues to show signs of progress with increased demand for new projects. The capital requirements for investors in connection with the completion of newbuild projects and investment in properties have, however, become stricter. As a consequence of the general financial weakening of Sjølsø due to the financial crisis, it is not possible for Sjølsø to secure the completion of the projects in Poland on its own. Therefore, Sjølsø's activities in Poland will be closed down.

Negotiations are currently ongoing between Sjølsø and several prospective buyers for single projects or for all of the Polish activities.

In the interim report for 2011, write-downs were made for an expected loss in connection with the decision on closing down the activities in Poland. Sjølsø still expects these write-downs to cover the losses due to closing down of the Polish activities.

FOCUS ON CASH RESOURCES AND OPERATIONS IS MAINTAINED

In the current market situation with lower revenue and earnings, Sjølsø is strongly committed to optimising the group's total assets and cash resources through measures such as completing ongoing projects and selling projects in the group's pipeline in order to reduce Sjølsø's debt and running costs.

As stated in the interim report for 2011, the group is cooperating with the management of PG Scandinavian Invest AB on releasing cash from a receivable relating to retail projects previously sold through a full or partial resale of the portfolio.

At the same time, Sjælsø remain focus on ensuring an appropriate balance between capacity costs and expected activity levels and to maintaining an organisation with the knowledge and skills necessary for developing and completing the projects within the pipeline.

As mentioned in the interim report for 2011 it is still crucial for Sjælsø to obtain refinancing of projects and loans, strengthen the cash position and secure loans for new projects.

NEW SALES AGREEMENTS WORTH DKK 250 MILLION SIGNED IN Q3 2011

In Q3 2011, Sjælsø signed agreements for the sale of projects worth approx. DKK 250 million, including:

- Udbetaling Danmark's new domicile in Holstebro, Denmark
- Højlandshusene in Skanderborg, Denmark
- Third phase of the Vantaa project, Finland

Sjælsø also sold terraced houses and apartments of the projects in Malmø, Gustavsberg, Skanderborg, Egå and on Margretheholm and Havneholmen in Copenhagen, in addition to apartments in Scandinavian House, Warsaw.

PROFIT GUIDANCE FOR 2011 UNCHANGED

Sjælsø retains its profit guidance for 2011.

Hence, Sjælsø's full-year guidance for 2011 of a loss of approx. DKK 900 million before tax and any additional write-downs and provisions is unchanged. The forecast of a loss before write-downs and tax is unchanged at about DKK 200 million.

FOR FURTHER INFORMATION

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Photo: Lyngby Søpark

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