

# Real Estate House View

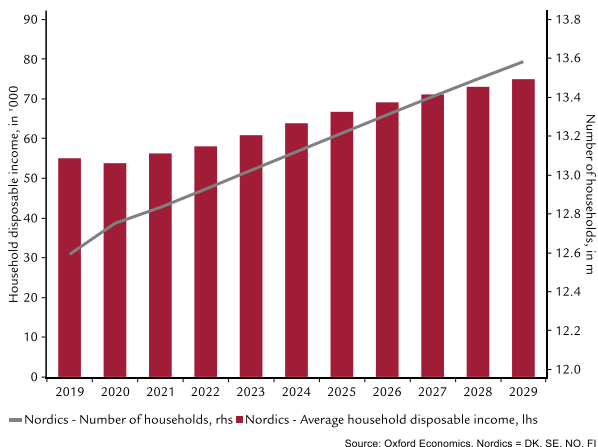
## Norway, Sweden, Finland, Denmark

Second half-year 2021

### Key takeaways

- **Residential with new record:** The Nordics' occupier market is characterised by a shortage of housing, supporting rental growth. With increasing rent levels, however, discussions about affordability are becoming more heated. Nonetheless, for the time being, investors appear unperturbed: investment volumes in H1 2021 are at an all-time high.
- **Logistics in demand but with limited supply:** Logistics is another sector with a supply shortage. Although occupiers prefer modern stock close to the capitals, they also need in some instances to move further away from the cities. Investors face the same issue: a lack of investible stock. As a result: rents increase, and yields compress.
- **Office is torn a bit:** Though Nordic employees were used to working from home before the pandemic, the already flexible working attitude could not neutralise the economic effects of the pandemic, resulting in take-up reductions and decreasing rents in most Nordic markets. Investors' flight to core properties stabilises prime yields, even at reduced investment volumes.
- **Retail is torn a bit more:** While high street retail and shopping centres feel the impact of the pandemic into 2021, big box retail products are in demand. Furthermore, structural changes in consumer behaviour – not just towards online shopping but also towards more sustainability – are shaping the market.

### Chart in focus



When talking about the Nordics, terms like "solid fundamentals" quickly come to mind. In an environment where stability has gained importance, solid fundamentals weigh heavy: an increasing number of households support the residential sector, growing disposable income fuels consumer spending and ultimately impacts retail and the logistics market that benefits from consumers' shift towards e-commerce and preference for last mile logistics. The positive prospects result in an influx of investors' capital, keeping investment volumes high. In H1 2021, the rolling 4-quarter investment volume (EUR 32.4 bn) was stable compared to the 5-year average.

The heterogeneous group of northern economies has recovered quickly from last year's recession, benefiting from rising demand from abroad and fiscal policy measures, which support domestic economic activity. The region's export-oriented manufacturing sectors are currently in a boom situation. Unemployment has peaked in all countries, with the labour market already entering a tight situation in Denmark. Denmark and Finland will benefit from the EU recovery funds, which provide an additional procyclical tailwind in the medium term. In response to rising inflation pressures and in order to fulfil the goal of financial stability, Norway's central bank and – with less certainty – also Sweden's Riksbank will tighten monetary policy in the second half of 2021.

## Heterogeneous office

The state of the Nordic office market is uneven: in Copenhagen, vacancies remained largely unchanged and after stable prime rents in 2020, positive rental growth is expected in 2021. In the medium term, high levels of completions weigh on the market. In Finland, declining office employment caused vacancies to increase and prime rents to decline. In 2021, a further drop is expected, before the slowdown in completions stabilises rents. Domestic investors still dominate market activity – affecting the Finnish market that usually features a high share of foreign capital. However, the flight to core is stabilising prime yields. In Norway, where domestic capital is the norm, investment volumes are stable and further yield compression is likely.

## Retail is divided

Sales prospects for the Nordic retail sector are positive, with growing retail spending, especially in Norway and Sweden. However, changes in consumer spending show a shift towards e-commerce. Post-pandemic, 38% of Nordic consumers plan to permanently increase their use of parcel delivery – even for products such as food and groceries. Another effect on the demand for retail products is a sustainable rise in savings rates and preference for more sustainable products. For products bought in-store, we observe increasing demand for products that are offered in big box retail properties, whereas high street retail and shopping centres are under pressure. Rent levels in the high street are expected to further decline in 2021, before prime rents

slowly start to recover from low levels. For secondary assets there is evidence of financing issues and repricing. In the investment market, the polarisation has resulted in decompressing prime yields for city centre retail in 2021, whereas yields of grocery-anchored/convenience stores are stable to compressing.

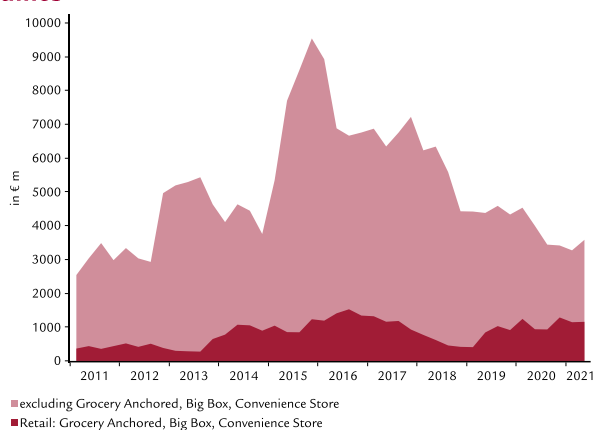
## Logistics: a shortage story

Though the logistics catchment population of the Nordic capitals is small – in Stockholm 5.4 million and in Copenhagen 9 million people can be reached in a 4.5-hour drive – the population is affluent and shows a rising preference for e-commerce. The growth of e-commerce in turn boosts demand for logistics properties. While occupiers prefer modern logistics space in proximity to the capitals, availability in these submarkets is low – in Stockholm, the vacancy of modern stock at the end of 2020 was below 5%. Although new supply is being added to the market in 2021/2022, only a small amount is speculative. As shortage of supply supports rent development, rental growth in 2021 is reasonable, after rents remained static for six months up to the end of Q1 2021 – except for Copenhagen, where prime rents rose by 3.8% between Q3 2020 and Q1 2021 – driven by limited supply.

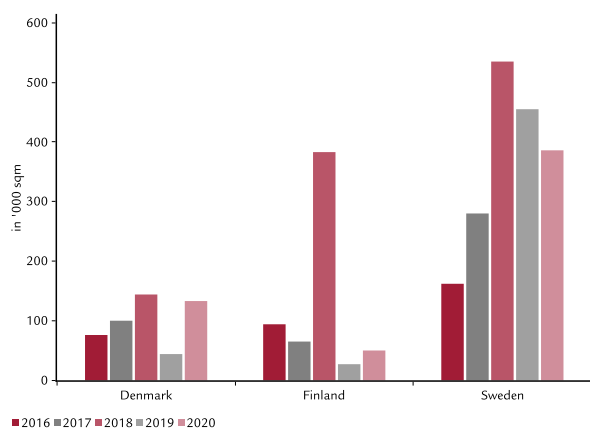
## In the land of rising rents

The combination of occupier demand and a housing shortage in the Nordics – e.g. in the Copenhagen region 5000 to 9000 dwellings per year are needed to meet demand, in the Helsinki area the figure is some 15 000 p.a. – pushes rents, even during crisis times. For example, rents in Denmark increased by 1.3% from May 2020 to May 2021. In Finland rents as of Q1 2021 were 0.8% more expensive than twelve months earlier, and in Sweden rents in 2020 increased by 1.9% on average. The Nordics' cash-flow-favourable residential sector has not gone unnoticed by investors: with EUR 5.8 bn, H1 2021 representing the highest H1 volume on record, of which Denmark's share is roughly 50%. However, clouds lie on the horizon of investors' stable income stream: discussions on rent affordability are starting to turn from being just heated discussions into reality. In June 2021, Sweden's government fell over the plan to introduce market rents for new dwellings, i.e. a landlord's right to freely set rents without negotiation.

**Chart 1: Rolling 4-quarter retail investment volumes**



**Chart 2: Logistics, total completions > 10 000 sqm**



## Authors

### Swiss Life Asset Managers, Germany

**Andri Eglitis**

**Head of Research AM DE**

andri.eglitis@swisslife-am.com

**Gudrun Rolle**

**Research Analyst Real Estate**

gudrun.rolle@swisslife-am.com

### Swiss Life Asset Managers

**Francesca Boucard**

**Head Real Estate Research & Strategy**

francesca.boucard@swisslife.ch

**Marc Brüttsch**

**Chief Economist**

marc.bruetsch@swisslife.ch

### Do you have any questions or would you like to subscribe to this publication?

Please send an email to: [info@swisslife-am.com](mailto:info@swisslife-am.com).

For more information visit our website at: [www.swisslife-am.com/research](http://www.swisslife-am.com/research)



### Released and approved by Swiss Life Asset Management Ltd, Zurich

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements, which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

**France:** This publication is distributed in France by Swiss Life Asset Managers France, 153 rue Saint-Honoré, 75001 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Swiss Life Asset Managers Deutschland GmbH, Aachener Strasse 186, D-50931 Köln, Swiss Life Asset Managers Luxembourg Niederlassung Deutschland, Hochstrasse 53, D-60313 Frankfurt am Main and BEOS AG, Kurfürstendamm 188, D-10707 Berlin. **UK:** This publication is distributed by Mayfair Capital Investment Management Ltd., 55 Wells St, London W1T 3PT. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General Guisan Quai 40, CH-8022 Zurich.