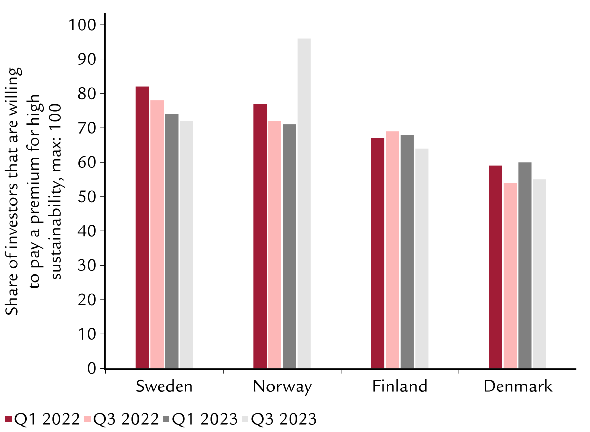
Real Estate House View
Norway, Sweden, Finland, Denmark

First half-year 2024

Key takeaways

- **Lower spread accepted:** As the fiscal policy tightening is expected to be over in most countries and most real estate price adjustments will have been made, the spread between real estate yields and government bond yields is likely to widen again somewhat, though not to the same levels as in the 2010s.
- **Investors' preferences:** The sustainable demand surplus in the residential, industrial and logistics sectors is prompting investors to keep their focus on these sectors.
- **Lower supply of prime assets:** The drop in construction volumes – and therefore the number of investible prime assets – acts as a price stabilising factor – one reason why investors will tolerate a lower spread in real estate.
- **Sustainability first:** Nordic investors are highly focused on considering sustainability classifications when making investment decisions and are willing to pay a premium for high sustainability. The figures underline the region's intention to become the world's most sustainable region.

Chart in focus



Source: Cushman & Wakefield - Nordic Investor Confidence Index. Last data point: 2023 Q3

A biannual survey by Cushman & Wakefield among Nordic investors reveals that environmental aspects remain an important factor – even though the market environment has become challenging: More than 95% of Nordic investors – in Norway even 99% – consider sustainability classifications when making an investment decision. And more than two-thirds are willing to pay a premium for high sustainability – in Norway it is even 96%. These clear numbers underline that the Nordic region aims to become the most sustainable and integrated region in the world by 2030.

In 2024, a recovery in global demand will boost the Nordic economies. This region is also likely to emerge from the cyclical trough over the course of the year. The economic downturn across the entire region will likely have left hardly any traces on the labour market. However, the central banks of Norway and Sweden are lagging internationally in terms of meeting their inflation targets. The easing of monetary policy will therefore be delayed in these countries. Growth in real wages is also unlikely to provide an accelerating stimulus to domestic demand until the end of the year.

An adjusting investment market

In 2023, the Nordic investment market recorded the lowest investment volume since 2011. Despite its downturn, the market shows firstly, that investor preferences are hardening towards residential, industrial and logistics. Their joint share accounts for just over 50% of total investment volumes. Secondly, with rising interest rates, the spread between real estate and government bond yields narrowed significantly. Though the spread is expected to widen again, it is unlikely that the same spread levels of the 2010s will reoccur any time soon. However, the 2000s have proven that investors are able to tolerate narrower spreads.

Mixed signals for offices

The Nordic office market is currently sending mixed signals: In Oslo, the office occupancy rate is back to pre-pandemic levels and take-up reached a new peak in H1 2023 – contrary to the market trend. Logically, prime rents increased (Q3 2023: +7.0%, y-o-y) and vacancies remained stable at around +/- 6.5%. Whereas Stockholm and Helsinki remain impacted by hybrid working and exhibited slowdowns in take-up activity, Stockholm's take-up volume is even down to 2020's lockdown levels, and the vacancy rate (Q3: 11.0%) is well above the long-term average. Counterintuitively, prime rents in Stockholm increased strongly by 6.6% as of Q3 2023 (y-o-y). Stockholm's anticipated drop in completions (as % of stock) below the long-term average might bring down the vacancy rate and support further rental growth. In Finland, where a high vacancy rate (Q3 2023: 15.2%) is weighing on rental growth (Q3 2023: +2.9%, y-o-y), the city of Helsinki is assessing strategies for converting obsolete office stock into residential properties.

Retail parks with potential

Data from the retail sector shows that retail parks are mostly defying the ongoing repricing process, e.g. retail parks in Sweden corrected by only 20 bps in 2023 to 6.0%. Retail parks are also characterised by relatively strong rental growth compared to high street retail: as of Q3 2023, prime rents for warehouses in Oslo increased by 5% (y-o-y) and by roughly 3% in Copenhagen. In Sweden, retail park rents remained stable. However, Sweden's retail park landscape is fairly saturated as it exhibits Europe's highest retail warehouse supply per capita (0.33 sqm), whereas the supply in Finland and Denmark – below 0.1 sqm/capita - indicates an undersupply and catch-up potential.

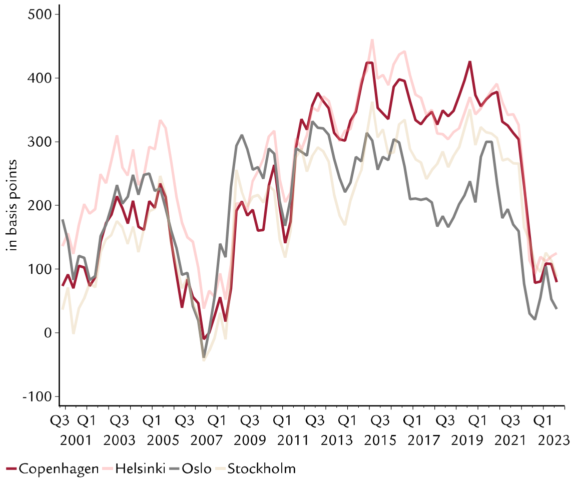
More hot logistics subsectors

Industrial and logistics properties have seen a faster and harder repricing (+125 bps since Q1 2022) than other sectors. This means that investment opportunities will arise more quickly. Also, cash flows from the occupier market are not only protected by inflation indexation but also by the ongoing supply-demand imbalance, which is reflected in historically low vacancy rates, e.g., 1.4% in Copenhagen or 0.6% in Western Jutland. Consequently, prime rents continue to rise (+6.5% since Q3 2022). Also, investor interest is expanding from warehouses and last mile/big box to manufacturing, open storage and container terminals due to attractive fundamentals and occupier demand.

More households, less housing

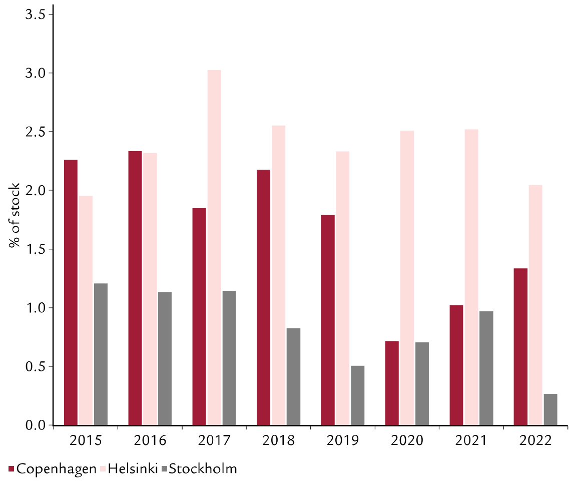
The Nordics are facing household growth: +30,000 in Sweden or +20,000 in Norway in 2024. Thus, the need for more housing is rising. In Sweden, the National Board of Housing, Building and Planning estimates that 67,300 new homes are needed p.a. by 2030. This demand is offset by a decline in completions (Q3 2023: -35% to -45%, y-o-y). This mismatch is tightening the housing market, except in Finland where completions (annual moving total as of October 2023: 20.100 dwellings) have been above the long-term demand (10,000-12,000 new dwellings p.a.). The oversupply is most pronounced in the HMA, causing subdued rental growth in Helsinki (Q3 2023: +0.5%, y-o-y). However, as Helsinki's household growth will outpace housing stock developments, the oversupply will shrink, and rental growth prospects will rise in the medium term again.

Figure 1: Spread between office prime net yield and the local 10-year government bond yield



Sources: PMA, Macrobond. Last data point: 2023 Q3

Figure 2: Housing building permits in the Nordic capitals



Source: PMA (no data for Oslo). Last data point: 2022

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