

Real Estate House View

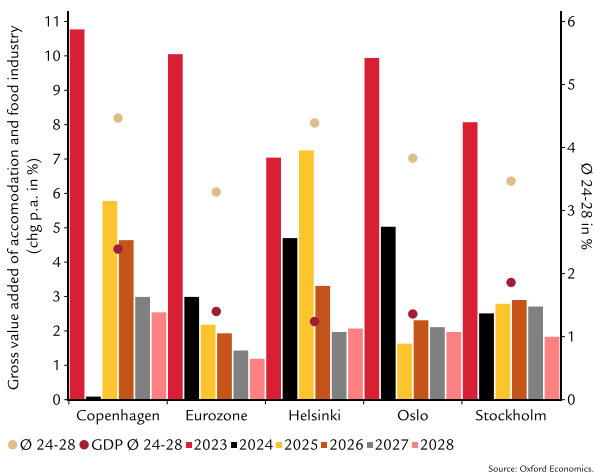
Norway, Sweden, Finland, Denmark

Second half-year 2024

Key takeaways

- **Home game:** The Nordic real estate investment market remains dominated by domestic capital (H1 2024: 76% share). However, the foreign capital entering the market focuses primarily on Copenhagen (H1 2024 share: 34%). According to surveys, Stockholm is on the shopping list, too.
- **Sector preferences:** The trend is towards alternative real estate segments such as student accommodation, senior housing, life sciences and data centres. Among the established sectors, investors show a high preference for industrial and logistics as well as multifamily.
- **Turning point ahead:** Real estate yields are – in part – a function of bond yields/swap rates. Based on these rates, real estate prime yields in most sectors ought to bottom out this year and then compress again slightly in 2025. The exception is logistics, where yields have already started bottoming out.
- **It's the income, stupid!** Total returns will primarily be driven by income returns. The real estate sector is one of the very few asset classes in which active asset management can impact the cash flow generated. While the sectors' fundamentals generally allow for rental growth, outperformance is the feat of asset managers.

Chart in focus



Nordic hotels are back, particularly among investors who rate the values of hotels as more resilient than other real estate asset classes (CBRE survey 2024) and with respect to relevant KPIs: the industry's gross value-added figures, for example, show stronger growth rates than national GDP, especially for Copenhagen. And it's not only tourists seeking a "coolcation" (travellers escaping heatwaves for cooler holidays in the Nordics) who are supporting the sector – the return of business travellers is having an impact too: according to GBTA, CAGRs for business travel spending (2022-27) in the Nordics are – on average – expected to be higher than in Western Europe (11.2%): Finland: +15.2%; Norway: +11.4%; Sweden: +12.2%; Denmark: +7.2%.

As expected, inflation rates are approaching central banks' target levels in the Nordic economies too. In Finland, annual inflation had dropped to 0.6% by June 2024. This trend allows a normalisation of monetary policy which is already under way in Sweden, where the Riksbank lowered its policy rate for the first time in May. Business activity in manufacturing seems to be recovering more quickly than in the German-speaking countries or in France. Sweden's Manufacturing Purchasing Managers Index has been back at expansionary levels since March this year. In all four Nordic economies discussed here, consumer confidence has been on a steady upward trend since the start of the year.

Approaching normality

As of H1 2024, investment volumes in the Nordic real estate market have roughly stabilised at approximately EUR 19bn (rolling 4-quarter volume). For H2 2024, some increase in transaction activity – backed by cooling inflation and lower financing costs – is anticipated. We nevertheless still expect to see some yield adjustments in 2024 (compared to 2023) before yields follow the government bond yield/swap rate curves and start to compress again in 2025.

Office: liked by locals

The Nordics face the same office sector challenges as elsewhere. However, the return-to-office trend is quite strong overall, which is why domestic investors tend to like the sector, whereas foreign investors shy away from it – in H1 2024 the share of cross-border investors was down to 5.5% while the share of office investments in the overall market increased to 27%. Norway and Sweden in particular are attracting local money. Oslo is favoured due to robust office employment and superior rental growth (Q1 2024: +23% compared to Q1 2022). Stockholm has seen success thanks to notable letting activity, such as two deals of more than 50,000 sqm in 2023 that led to a record take-up volume of 385,000 sqm in the city (highest annual level since 2019; +15% above the market's long-run average).

Retail: relatively stable

Retail is considered a relatively stable sector in the Nordics. With increasing consumer confidence – the European Commission's Consumer Confidence Indicators of June 2024 are way above the EU average (European Union: -12.9; Denmark: -2.7; Sweden: -0.4; Finland: -7.8) – retail spending is expected to be especially strong in Sweden (2024: +4.96%; 2025: +6.49%) and Norway (2024: 4.36%; 2025: 8.11%). These figures translate into comparatively stronger rental growth rates for city centre retail prime assets: +1.7% in Copenhagen (Q1 2023 compared to Q1 2024) and +2.9% in Stockholm compared to the European average of +0.7% (27 key cities by PMA, including UK).

Logistics: the favourite

Irrespective of the survey, the results are robust: investors are on the lookout for industrial and logistics properties. One reason is that they no longer have to wait for the price to bottom out. Prime yields have started to stabilise at current levels, i.e. 5.25% in Stockholm and Copenhagen, and 5.50% in Oslo. For Helsinki, a final smaller correction to 5.50% towards the end of the year is expected. Even at the risk of repeating ourselves: it's the intact and healthy fundamentals that make the sector attractive and that allow for rental growth fantasies backed by a constrained supply of prime, modern properties.

Student living on the rise

The student population in the Nordics is growing: +22% on average since 2013. The imbalance between the high and growing demand in the student living sector and low supply is making the market attractive for investors, especially as students in the Nordics are usually able to pay higher rents for their student accommodation because higher education is free. The effect of rent controls in this region, however, should not be overlooked. Investor appetite for student housing – though still a niche market – is currently becoming most apparent in Norway, where investment volumes into student housing are – despite the overall subdued market sentiment – on the rise. Student living is one example of alternative real estate segments that are on the rise in the Nordics; co-living and life science are further examples.

Figure 1: Buyer composition in the office sector

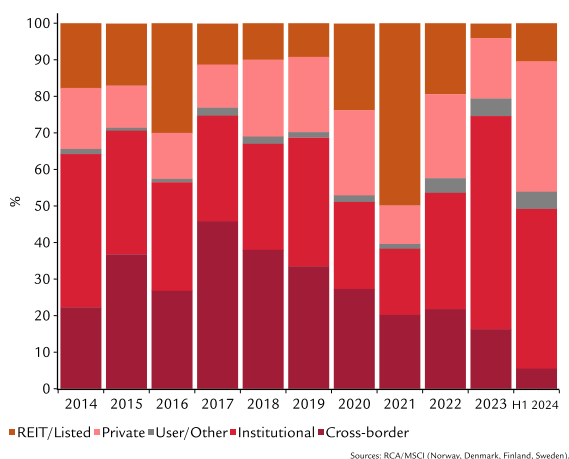
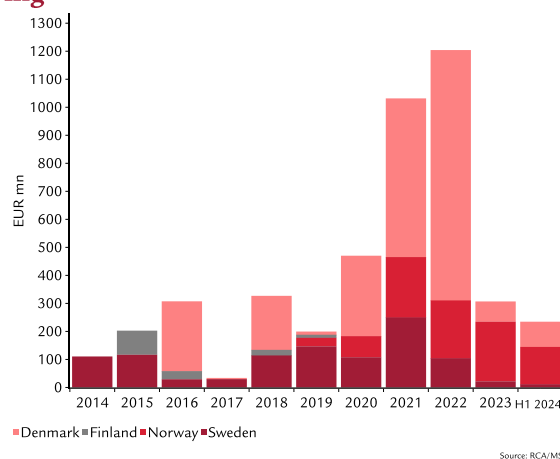


Figure 2: Investment volumes into student housing



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