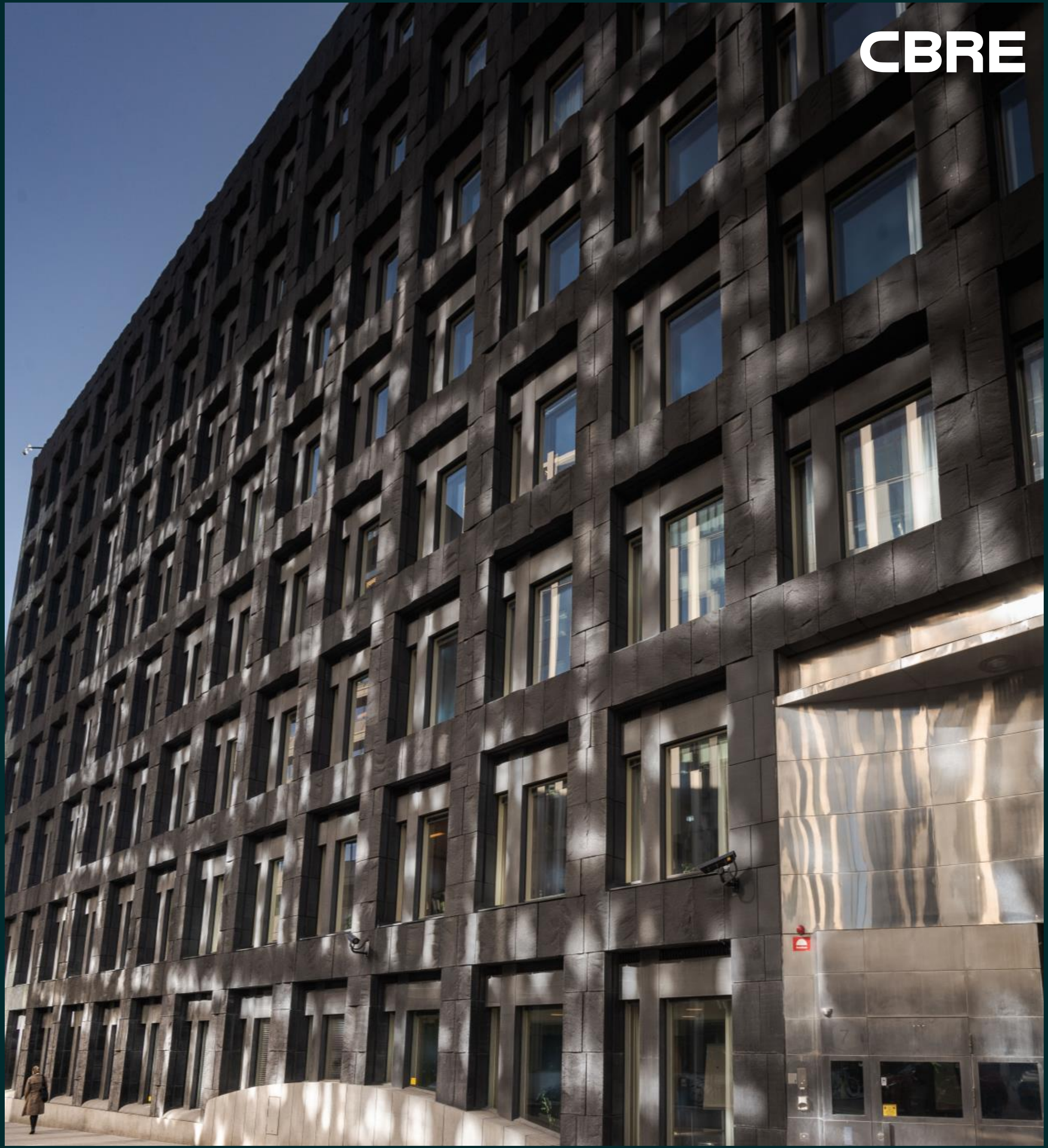
Intelligent Investment

2024 Sweden Real Estate Market Outlook

REPORT — Looking ahead




Celebrating 25 years
in Sweden
25th
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Introduction

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At CBRE we expect a positive shift for the Swedish real estate investment market in the second half of 2024. Volumes have faced the effects of several macroeconomic obstacles in 2023, including interest rates rising over previous prime yield levels and inflation increasing property management costs further with investors and financial institutions focusing on avoiding risk. These effects risk to continue to burden the first half of 2024, with the situation improving as inflation comes down and the Riksbank starts easing the interest rate.

Sweden entered the third quarter of declining GDP in Q1 2024, new construction of multifamily units are plummeting, and the previously limited spread between prime and secondary assets is increasing. Yet we see an improving landscape for property investment as values are expected to bottom out in 2024.

The currently popular term “*survive to 2025*” is continuingly relevant for highly leveraged companies and creates opportunities for investors ready to act.

Occupier markets are expected to present a mixed picture, with growing polarisation between different submarkets for logistics, and for offices especially, between the best assets and the rest. Office leasing have been highly active, yet tenants tend to downsize. In retail, better consumer fundamentals should improve footfall and sales figures from this summer. The living sector will face structural undersupply challenges yet have a strong occupier demand in the main cities. Similar demand-supply imbalances will be apparent for data centres.

Me and my colleagues are prepared to roll up our sleeves a little extra this year and assist with all real estate business, be it transactions, valuations, analysis, leasing or property management. Please let us know if you have any questions by reaching out to myself or any of my colleagues in this report!

Let’s do some good business this year!

Daniel

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01

Macroeconomics

The Swedish economy has shown more resilience than forecasts suggested in 2023, with the impact of higher interest rates delayed in feeding through into the economy. Positive economic growth is therefore delayed and expected first 2025. The turn to positive momentum is expected by the second half of 2024 as cuts in interest rates will improve both investor and consumer purchasing power. Geopolitics remain a downside risk together with impact of high interest rates and impact of climate.

Key Takeaways

01

After showing a robust economy during the pandemic compared to many other European countries, Swedish GDP growth has lagged in 2023 and is expected to face challenges in the first half of 2024. This is likely to make a challenging start for real estate markets. However, falling interest rates will counterbalance in boosting growth and contributing to a capital markets revival.

02

Sweden continues to be at the forefront of technological innovation and digitalization, which is expected to further strengthen the economy in 2024. Emphasis on research and development, coupled with a highly skilled workforce, positions Sweden to capitalize on emerging industries such as advanced manufacturing and clean energy. A focus on strengthening the Armed Forces to join NATO also boosts the economy.

03

The Swedish economy is expected to experience robust growth with the start in 2024 and soaring again in 2025, driven by various factors such as increased domestic consumption, investments, and exports. This growth is likely to be supported by favorable government policies and a stable business environment.

Economic growth bounce back in 2025

Weak economy expected to stablIize in 2024

2023 had a promising start, but economic growth weakened over the course of the year and is expected continue so in the first half of 2024. The economy is forecasted to stabilize in 2024, before a more convincing bounce back growth in 2025.

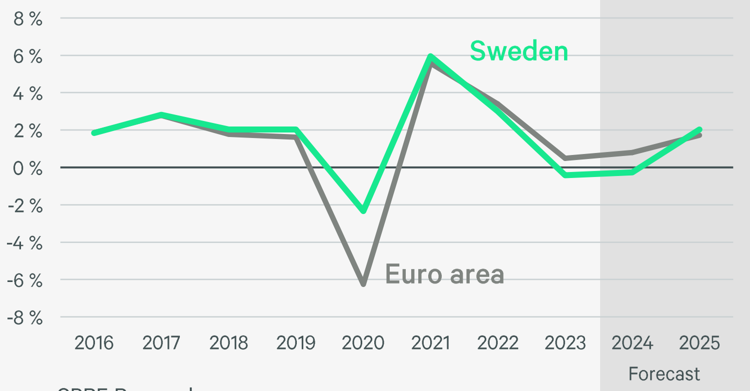
There are several key factors affecting the positive shift. The delayed impact of higher interest rates could be negative for consumer spending as the full effect comes in Q1 2024 and business investment is also expected to be impacted. Banks have been lending more conservatively due to increased risk of default and with tighter conditions.

Households are rebuilding their savings after using them to meet higher energy and food bills in 2022 and interest rates in 2023. Weakening world trade volumes are affecting some economies, especially Germany and its main trading partners to which Sweden is on.

More positively, falling inflation means that real wages are starting to grow, and interest rates have reached the top for this cycle. These factors will help to drive a pick-up in growth, although it is likely to be H2 2024 before the trend gains momentum.

Weak economic growth is expected to have an impact on the occupier side of the property market as office-based employment is expected to grow more slowly in the major office markets, which may impact demand for office space.

Figure 1: GDP growth, Sweden vs Euro area



Source: CBRE Research

Slowly improving retail sales and consumer spending growth, will frame demand for retail, logistics and leisure-related property. Reduced spending power and the steep increase in rents in 2022–2023 may create affordability issues in multi-family housing.

Main risks to the outlook

There are three principal risks to the outlook. The first being geo-political with further deterioration of western relations with Russia as the Ukrainian invasion creates further uncertainty in Europe. Also, the Middle Eastern crisis is a humanitarian catastrophe which may also have economic impact on global trade. So can also a potential economic crisis in China, where also further tensions regarding Taiwan, can impact business and consumer confidence and threaten higher commodity prices.

Secondly, sticky core inflation, or higher inflation caused by higher commodity prices, could defer the timing of interest rate cuts and the full effect has not yet hit the market. Sweden is currently in a weaker economic situation and the vacancy impact on real estate may yet to be seen.

Thirdly, the physical impact of climate change is becoming more evident with flooding and wildfires reoccurring and causing economic damage to real estate in Sweden. At the same time Sweden is less impacted from global warming issues and skiing resorts are gaining traction as people want to make use of an earlier start of the season.

02

Capital markets

The real estate investment market struggled in 2023 with the lowest volume in a decade and as we enter 2024 challenges remain. At the same time the market expect interest rate cuts from the Riksbank before the summer, which would ease financing. The Swedish market is attractive due to high liquidity and many, both local and global investors, actively search for opportunities.

Key Takeaways

01

The challenges of the sharp interest rate raises will continue to impact the real estate investment market in Sweden during the first six months, with volume expected to pick up first after the summer. Business opportunities are emerging for investors ready to acquire as transaction opportunities may arise from loan and bond maturities.

02

CBRE expect real estate values are to bottom out in 2024 as the effect of increased interest rates has rolled through a majority of the market. Most capital is aiming for opportunistic, and value add strategies.

03

As traditional core segments such as office and residential have become more difficult to justify, investors have become more interested in learning more about real estate supporting the future society, being it data centers, I&L and community properties where there is a stable tenant backing rental payments.

The only way from here is up!

Challenging transaction market 2023

Transaction volume for 2023 sums up to approximately SEK 83 billion, a decrease of about 74% from the record levels of 2021. The transaction volume is the lowest on a yearly basis since 2012. For the last quarter 2023 the volume sums up to ca SEK 26 bn, a decrease of approximately 15% from the corresponding quarter in 2022.

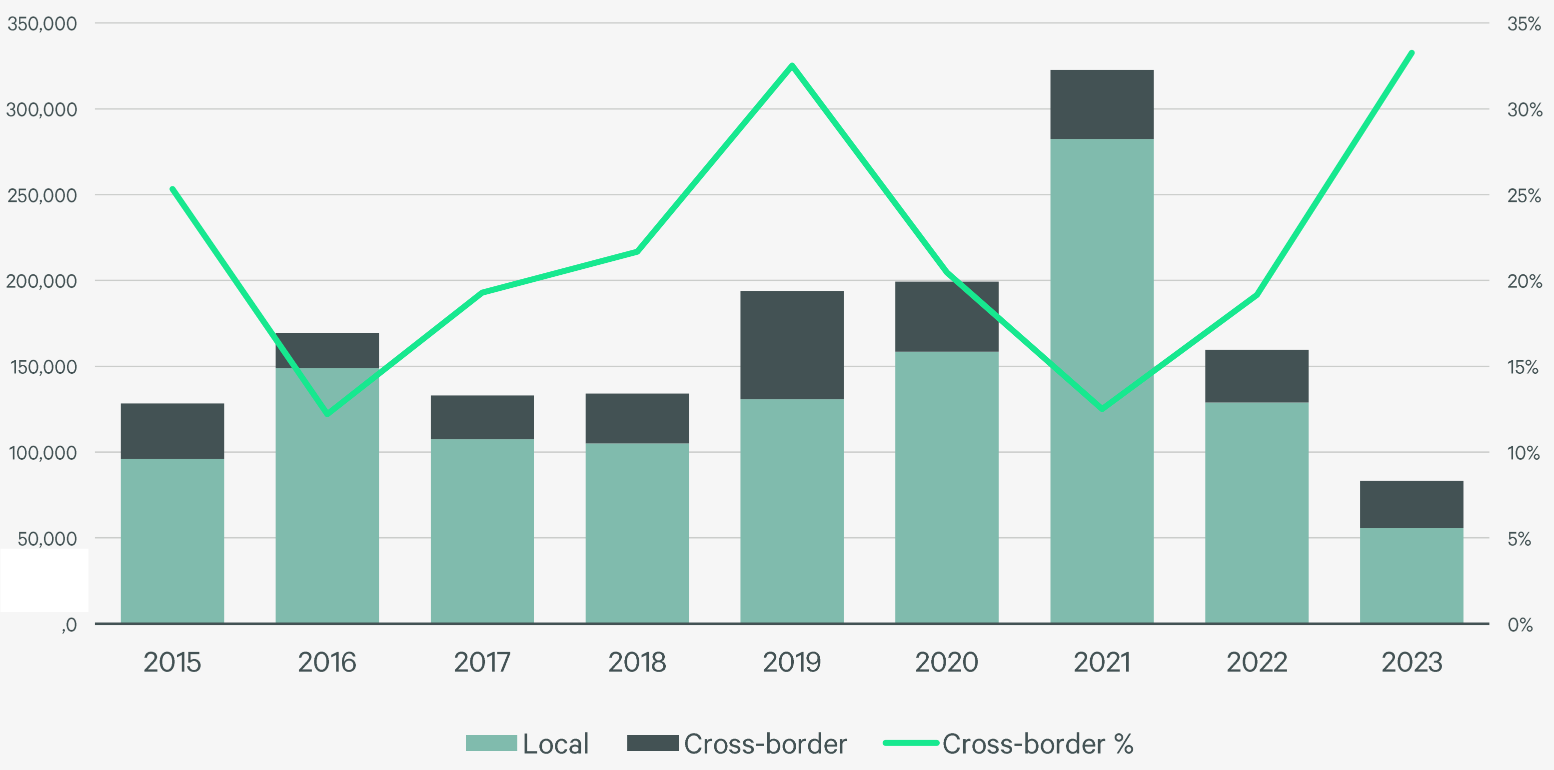
Rising interest rates and market uncertainty made a significant impact on the 2023 volume and is expected to continue to create an obstacle for sellers and buyers to reach an agreement on price levels due to a lag of the full effect of interest rate increases for the real estate market. Traditional sales of properties and portfolios have and are expected to decrease with potential for stressed deals. Limited access to financing may also have a negative impact on the total transaction volume in 2024. The possibilities for structural deals increase as a way to solve financial requirements increase and we have already seen these deals occurring in 2024.

High share of cross-border investors

International investors made a clear mark on the market with 33% of the total volume. This is significantly higher than the approximately 20% yearly average of cross-border investors during the last decade. However, the total volume has been unusually low with the volume of capital invested into the Sweden market remaining on the same levels as in 2022. One of the main active investors NREP is classified as Danish and included in the cross-border share.

International investors are active in most of the segments, with a primary focus on logistics portfolios and community properties.

Figure 2.1: Investment volumes (MSEK) and cross-border share (%) (excl structure deals such as SBB in 2022)



Source: CBRE Research

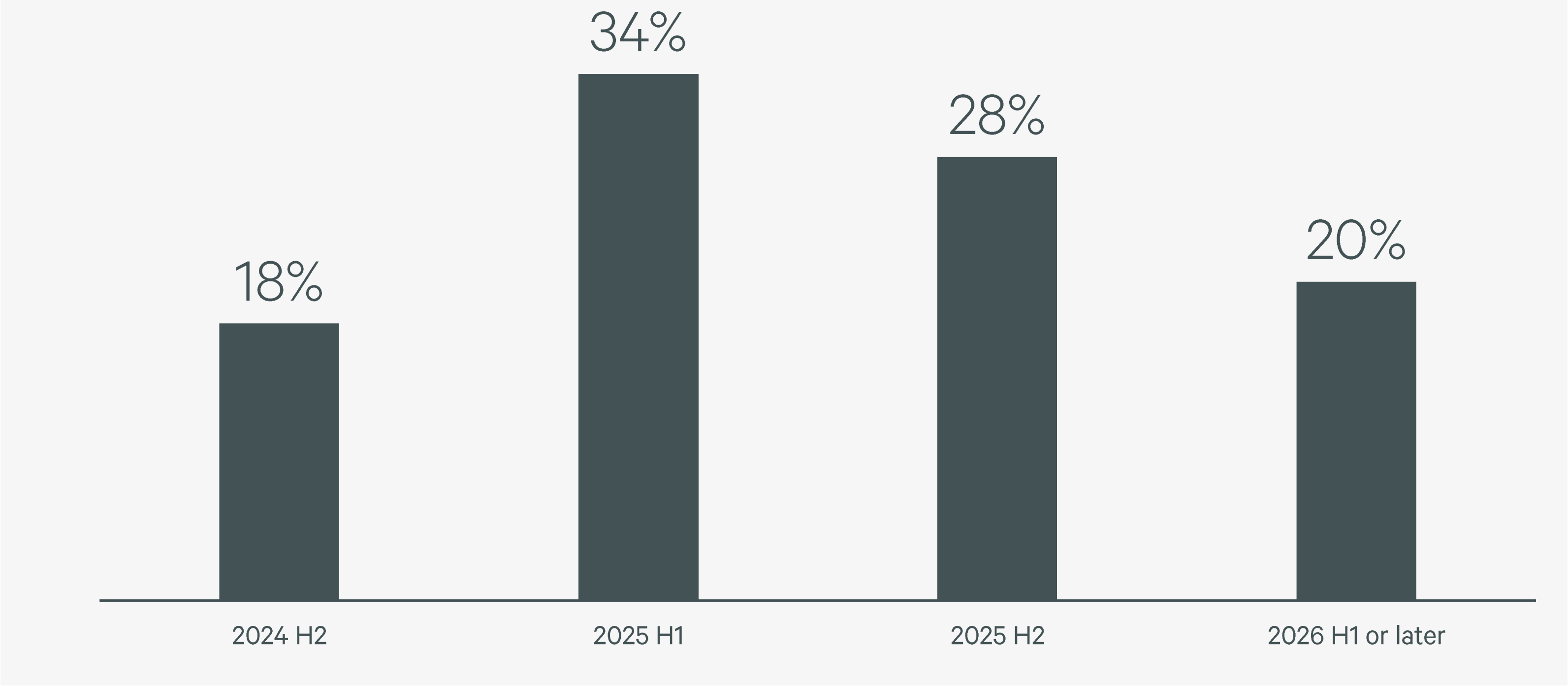
Market activity expected to pick up in 2025

Source: Nordic Investor Intentions Survey, CBRE Research, February 2024.

Figure 2.2:
When do you expect overall market activity to return to levels registered before the rise in global interest rates?

62%

of investors interested/domiciled in the Nordics expect deal activity to return in 2025.



“With our wide international presence, we are constantly updated on the latest market development.”

Patrik Kallenvret

Head of Capital Markets Nordics

patrik.kallenvret@cbre.com

Prime yields expected to stabilize in 2024, as interest rates peak

Opportunities arise as sellers can no longer wait

The wait-and-see approach by many sellers in 2023 may no longer be available with tighter lending conditions and requirements of improved LTVs. Following that development this may result in a more active market in 2024.

CBRE forecasts investment volume to have a surge in the second half of 2024, given that the macroeconomic challenges improve. Prime yields continued to decompress in 2023 due to increased financing costs and rising interest rates. The prime office yield, being an institutional product, is currently at 4.25% and expected to compress in the years ahead.

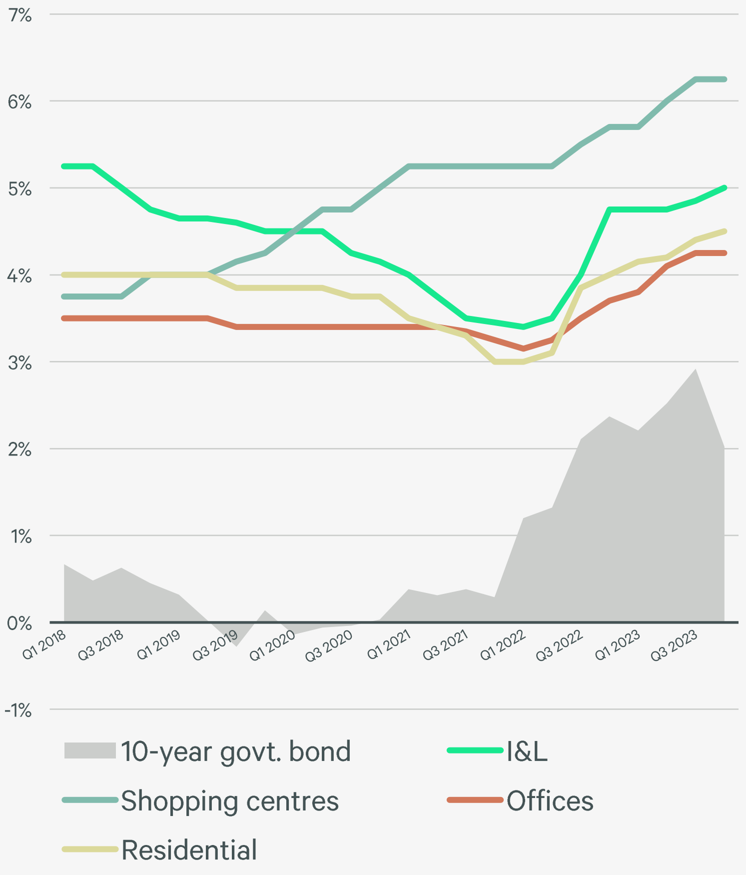
Softening central bank interest rates and tracking occupier demand will be key themes for the next 12 months. The current market environment will present investment opportunities this year.

International investors look for higher returns

International investors are expected to favor opportunistic and value-add strategies as the global funds summarized the latest capital raising for new funds. This result is also supported by the results in the latest CBRE Investor Intentions Survey

Respondents also indicated considerably stronger purchasing and selling expectations than in the year before and are optimistic that the investment market will recover in the near to medium-term.

Figure 2.3: Prime yields and 10-year government bond



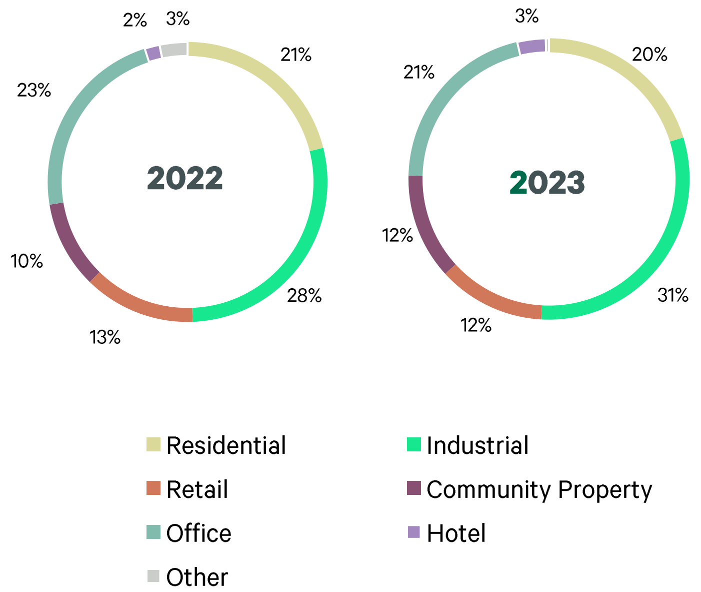
Source: CBRE Research.

I&L most popular segment in 2023

The largest allocation to a segment during 2023 was Industrial, including logistics and warehouse assets. This segment accounted for approximately 30% of the total volume.

Hotels also gained traction in the past year, with other segment allocation remaining similar to 2022.

Figure 2.4: Allocation by sector (%)



Source: CBRE Research.

A debt funding gap expected at refinancing

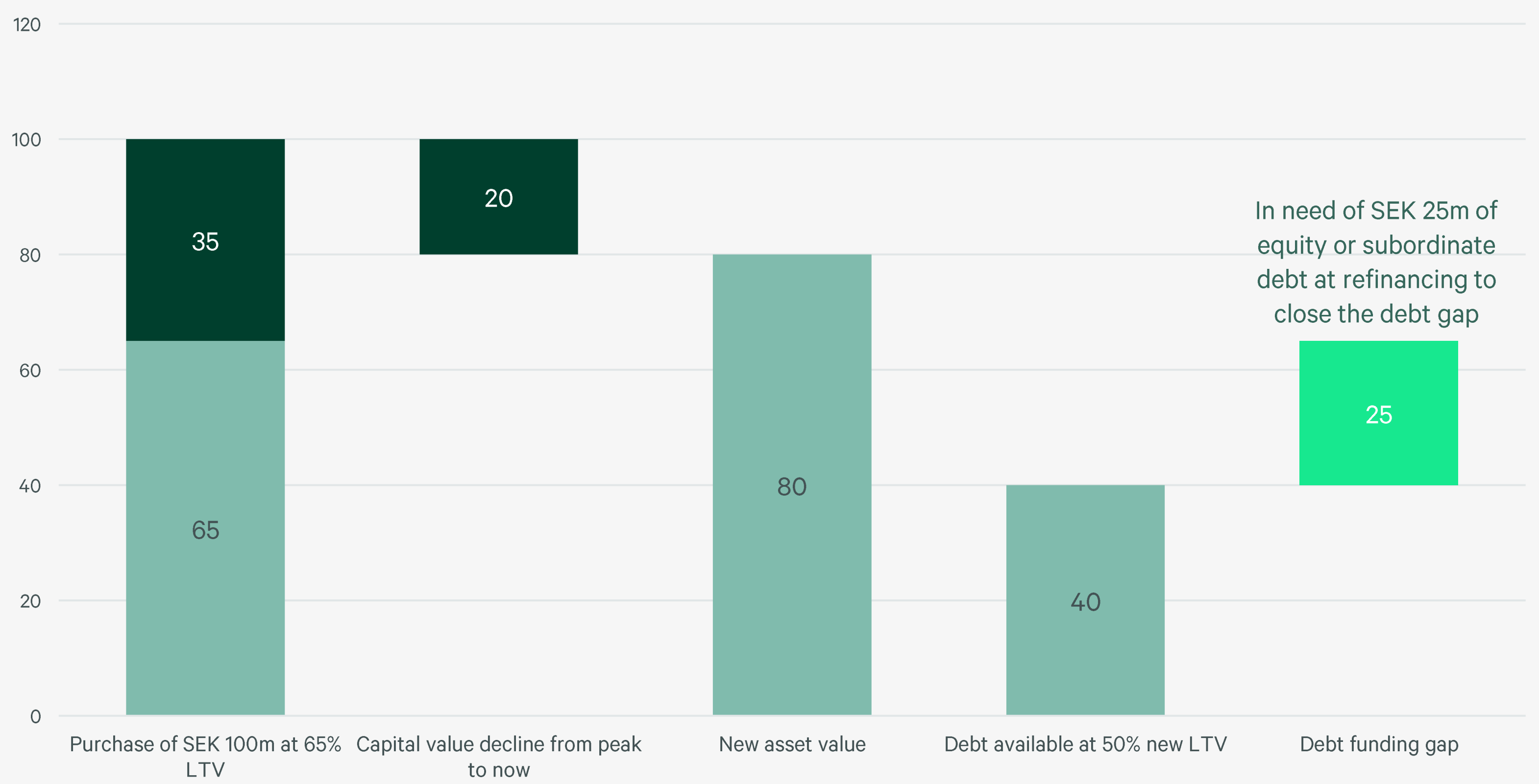
Debt funding gap

The last two years have been challenging for the real estate market, with declining asset values, higher interest rates and lower investment activity. Leveraged investors have been especially impacted by the new environment.

Higher interest rates and increased bank margins have drastically elevated the cost of debt. This, together with stricter lending terms and lower Loan-to-Value (LTV), has made it difficult for borrowers to fully refinance their loans. The difference between the previously amount borrowed and currently available debt is known as the debt funding gap.[1]

The debt gap obviously poses a challenge for the real estate market, but the gap can be mitigated through injecting new equity, subordinate debt or preferred equity. However, in cases where additional equity is limited, the increased need for debt funding places additional strain on the already limited credit supply. For investors who have access to capital, this predicament could provide an opportunity to capitalize on distressed assets and non-performing loans.

Figure 2.5: Simulation of the debt gap model from peak to now (SEKm)



Source: CBRE Research

Notes: 1) The debt funding gap for European real estate, CBRE, 2023

"We have likely seen the peak in interest rates for this hiking cycle, which, together with a thawing bond market, should alleviate some pressure from the banks and in turn lead to more predictable financing costs and higher transaction volume"

Henrik Broms
Real Estate Investment Banking, Nordics
Henrik.Broms@cbre.com

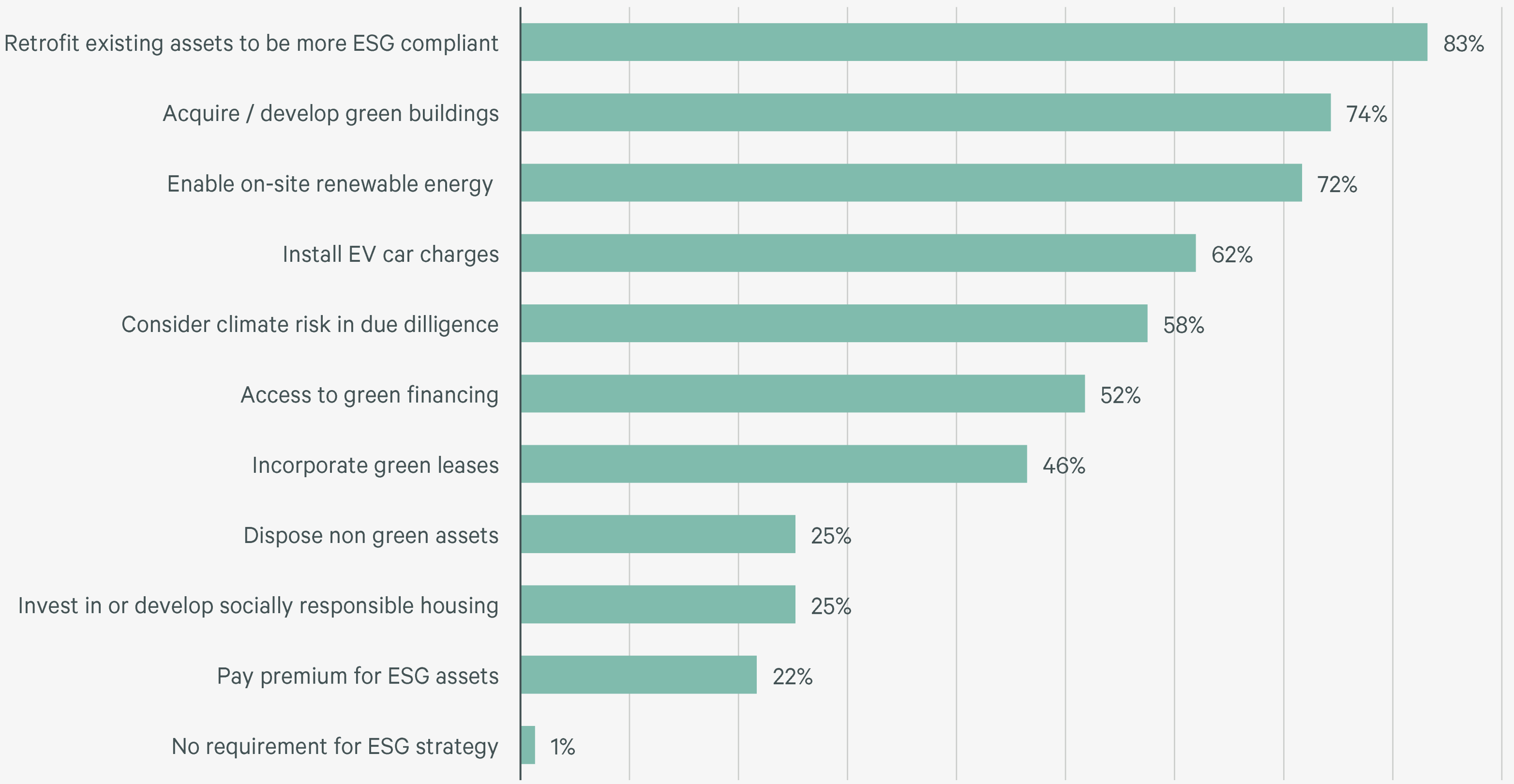
Investors Show Strong Preference for ESG Initiatives

Investors interested in the Nordic region were asked about what ESG initiatives they are considering for their real estate investments. An overwhelming 99% of investors are exploring various initiatives, clearly highlighting the central role of ESG in investor strategies.

On-site renewable energy emerged as a popular initiative, with over 70% of respondents giving it serious consideration. CBRE's report, titled "The Impact of On-Site Rooftop Solar PV on Logistics Values", revealed that the integration of on-site solar energy production enhances the value of logistics properties by 4.2%.

Approximately 75% of the surveyed investors are considering either the acquisition or development of green buildings. This suggests that the demand for ESG-compliant assets could potentially outstrip supply in the foreseeable future. This is further reinforced by the fact that 22% of respondents are open to paying premiums for ESG assets, with 29% of these respondents prepared to pay a premium exceeding 10% for ESG assets.

Figure 2.6: ESG initiatives considered by investors (%)



Source: CBRE Research

03

Sustainability

The implementation of CSRD puts sustainability among the top priorities for companies in business decisions ahead. A harmonization of EPC regulations throughout EU will also benefit Sweden.

Key Takeaways

01 The new CSRD regulations impact companies to show actual sustainability effects of business and procurement ahead. This will increase the need for and incorporate data in a new way.

02 Discussions on a harmonization on EPC regulations throughout the European Union will have positive effects on Sweden as local regulations highly outperform many other European countries and give a misleading view when comparing the different countries towards one another.

03 Sweden has traditionally had and plan to continue to invest in renewable energy sources, the wide use of district heating is also an advantage to many other European countries.

Roadmap to ‘1.5 degree’ net zero

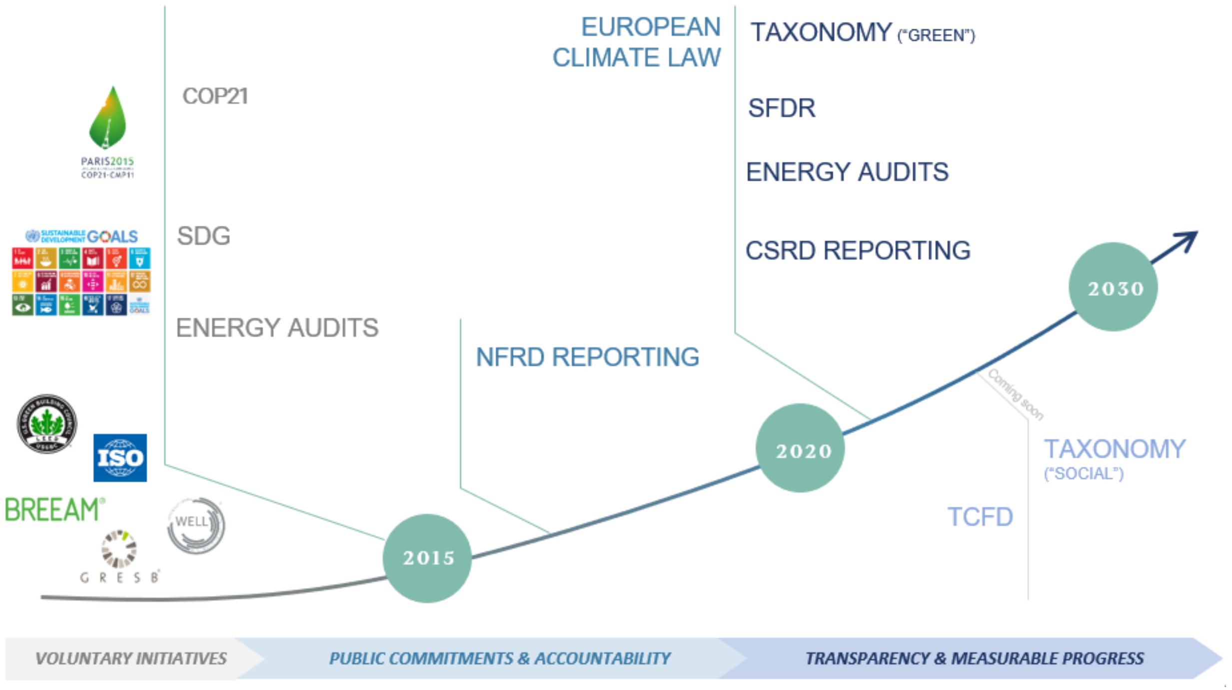
Implementation of CSRD in Sweden

The Swedish government has made a proposal to put the new EU regulation on corporate sustainability reporting (CSRD) in place. The regulation must be interpreted into national law and the directive is due to come into force on July 6 this year. Large companies are obliged first, followed by medium and small enterprises.

The objectives of CSRD are to promote sustainable business practices, ethical behavior, and accountability in corporate operations in a transparent and common way. Sustainability disclosures will be integrated in the annual report and hold the board responsible for ensuring compliance. Preventing or failing CSRD will involve sanctions.

Reporting of sustainability information is preceded by a double materiality analysis to determine standards, data points and KPIs a company is subject to. ESRS (European Sustainability Reporting Standard) is the reporting standards to follow when reporting according to CSRD. ESRS is divided into 12 standards that focus on ESG and contain almost 1200 datapoints in total.

Even if your company is not yet covered by the CSRD, it is time to start preparing and be ready to disclose increasingly detailed ESG-related information in order to remain relevant for businesses opportunities. Access and sharing of data is a key issue.



Environment

- ESRS E1 Climate Change
- ESRS E2 Pollution
- ESRS E3 Water & Marine Resources
- ESRS E4 Biodiversity & Eco Systems
- ESS E5 Resource Use & Circular Economy

Social

- ESRS S1 Own Workforce
- ESRS S2 Workers in the Value Chain
- ESRS S3 Affected Communities
- ESRS S4 Consumers / End Users

Governance

- ESRS G1 Governance Risk management, & Controls
- ESRS G2 Business Conduct

Harmonization of EPCs

The Energy Performance Certificate (EPC) has gained more traction due to updated and new European legislation and directives as the EU Taxonomy, Energy Performance of Building Directive (EPBD) etc. The EPC is primarily a measure of the energy efficiency of a building, and mandatory public information for most buildings. Countries in Europe do not all apply the same rating system for building types. As a result, comparison of the theoretical criteria of EPCs for the building sector as a whole is inconsistent.

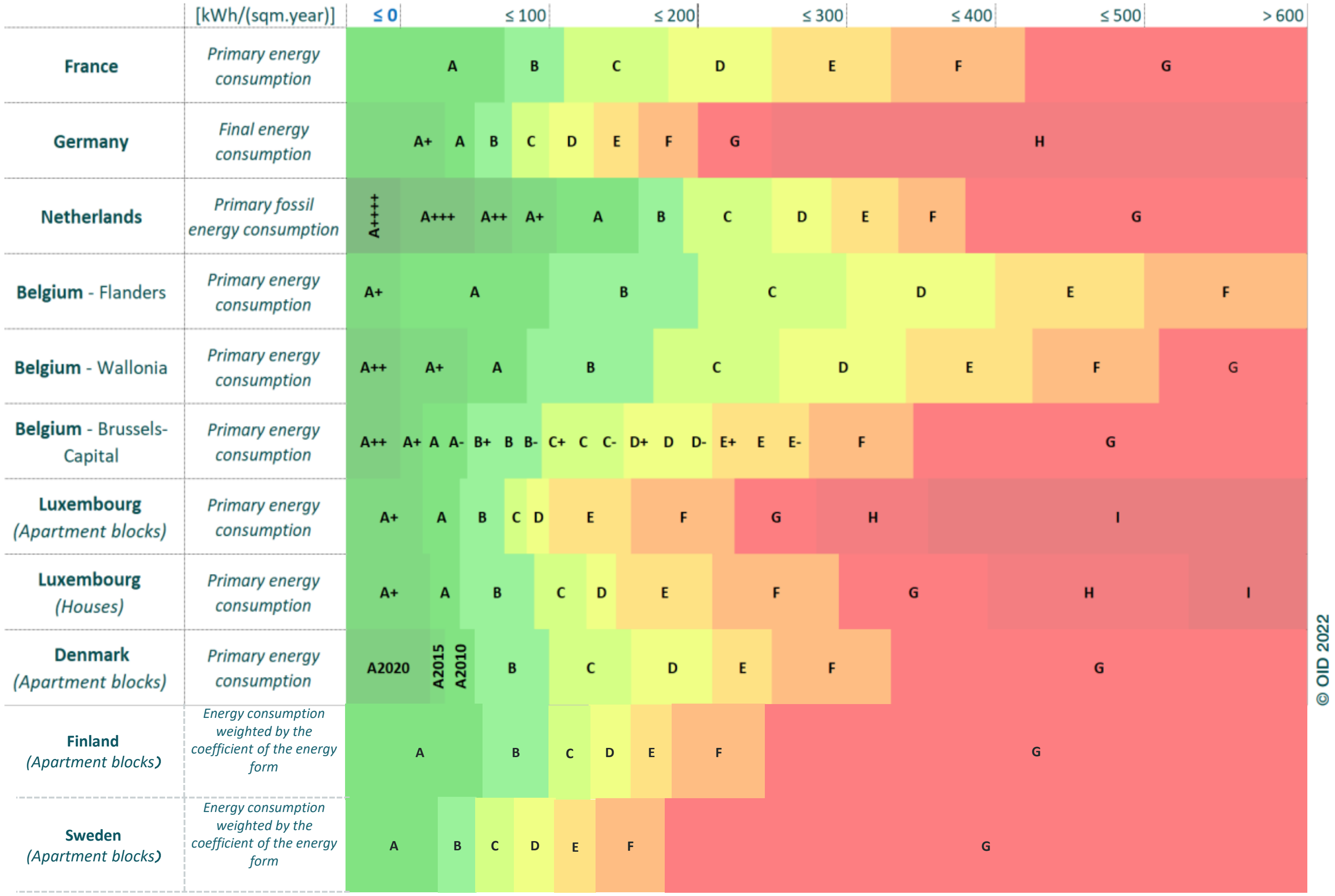
New rules to boost energy performance of buildings across the EU

There are several initiatives to drive the transition to net zero by 2050 within the building and real estate sector. Currently there is a provisional agreement on a strengthened EPBD, that suggest improved EPCs based on a common EU template with common criteria, to better inform citizens and make financing decisions across the EU easier. EPBD also contains provisions to implement energy efficiency improvements in the existing building stock for each Member State, specific provision on solar energy, charging infrastructure, smart building indicators and more.

The Swedish National Board of Housing, Building and Planning (Boverket) is preparing changes to the A–G energy classification scale for buildings to bring it more in line with the energy classes of other EU Member States and avoid stricter requirements for Sweden.

The current, national proposal for amended EPC classes may not be implemented, depending on the final form of the EU directive.

3.1 Energy bands and their thresholds in several Member States that employ measurement scales in kWh/(m².year) for residential buildings. The complexity applies for all relevant asset classes.



Source: OID (the Green Building Observatory) & CBRE Research

Stockholm currently tops the list of European cities

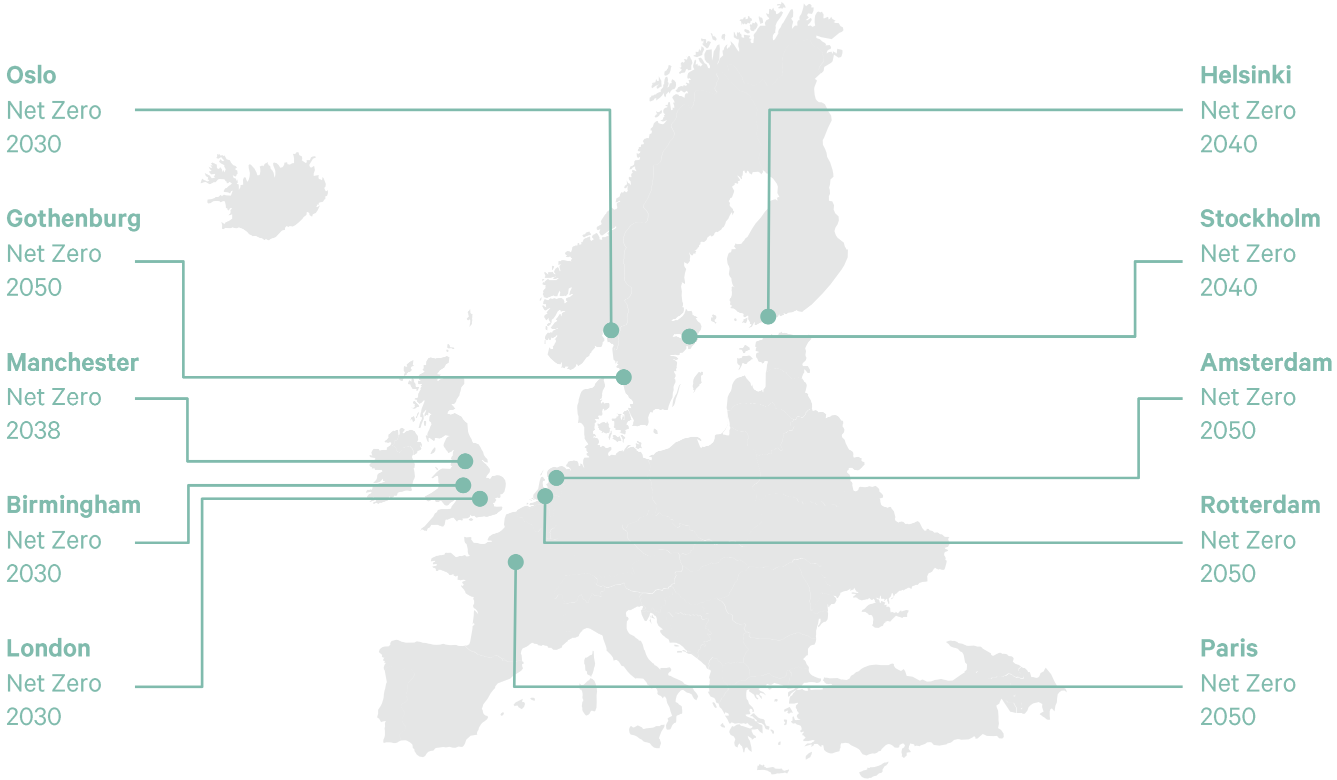
CBRE has developed a framework to compare the resilience of different cities to climate change. The aim is to provide guidance on what investments need to be made in a property in the short and long term.

Recently, CBRE conducted the European City Sustainability Study 2024, which ranks European cities based on their resilience to climate change. As a property owner, understanding the climate resilience of different markets can provide valuable insights for real estate investments. The study evaluated 42 cities across Europe and considered factors such as transition risk, different building performance standards, air pollution levels, flood risks and renewable energy implementation. By assessing these key indicators, the study aims to help real estate professionals and investors better understand the opportunities and challenges each market offers.

The survey revealed that Stockholm ranks first among the 42 European cities best able to withstand the impact of climate change on property values. Also in the top ten is Gothenburg, while Malmö is in the middle of the list. Top ten (without ranking): Amsterdam, Birmingham, Gothenburg, Helsinki, London, Manchester, Oslo, Paris, Rotterdam and Stockholm.

CBRE's framework and methodology is consistent and common across Europe and North America. It allows us to assess the impact of climate risks on property values as we can combine with our own local data on property values, renovation and construction costs, certification rates, etc. This type of information and assessments are increasingly sought after when investing in real estate due to extended regulatory landscape and risk awareness.

Top 10 cities ranked in the CBRE European City Sustainability Study 2024



> "CSRD is changing the scene on how companies will prioritize and work with sustainability ahead. It will all change in 2024."

Linda Kjällén
Sustainability Manager, CBRE Sweden
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04

Office

Back to basics, office landlords have focused more on active asset management, leasing and creating more attractive assets through development or refurbishment. This trend is expected to remain as investors continue to deep dive in what occupiers require from future offices to remain relevant and boost company culture.

Key Takeaways

01

The office leasing market in Sweden continue to remain active. Occupiers are continuously moving to utilize office space in a more hybrid environment, a shift from the freezing effect of the pandemic. Tenants are generally down-sizing space, yet not as much as first anticipated.

02

Quality differentials become more crucial with access to commute and a high service supply near the office. Poor quality space may suffer voids yet also create upgrading or refurbishment opportunities. Flexible space gains traction as space on demand makes sense for occupiers focused on their core business.

03

Vacancy rates are likely to peak out in several already challenged submarkets and landlords are advised to continue having an eye on the financial robustness of tenants, in the B2C segment especially. The low supply of new stock in Stockholm limits the effect, higher supply in Gothenburg may cause more of an effect.

Office investment volumes continued to drop

Low volume 2023 expected to increase in 2024

The Swedish office investment market has been exceptionally challenged in 2023 with the total annual volume coming in at only SEK 17,5 bn, a significant drop from the SEK 103 bn in the record year of 2021. Rising interest rates have impacted the low yielding office assets, which has for a longer period been dominated by domestic investors. However, a few deals in 2023 have been made with cross-border capital.

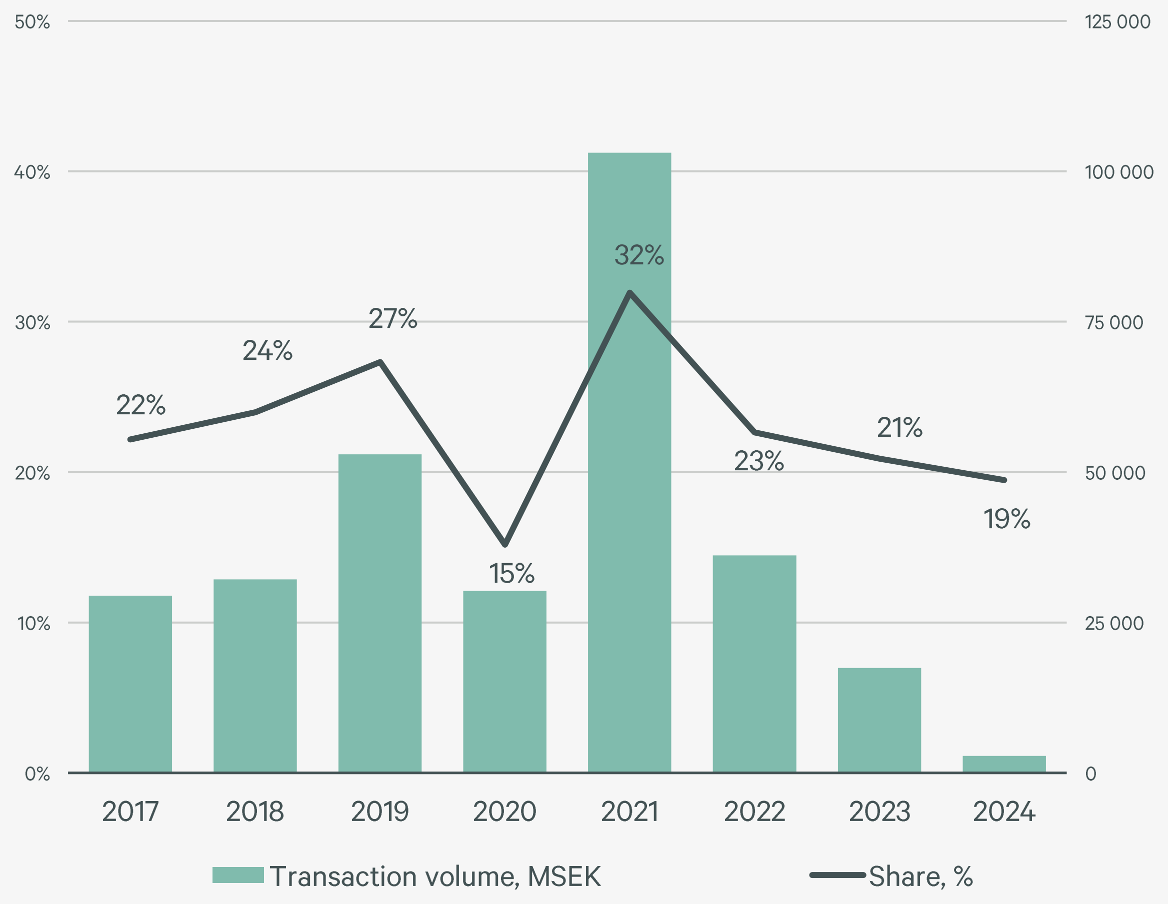
The uncertainty in the US and global office occupier market has also impacted the investor risk appetite from international investors compared to previous years.

The expectations for 2024 increases as the wait-and-see approach from many investors has moved to a more active state.

Pricing of assets spread wider than before

CBRE notice a widening spread in pricing entering 2024, with a limited interest in secondary assets and locations. 2024 is however expected to be the year when yields peak out and investment appetite starts recovering.

Figure 4.1 Office transaction volume, (MSEK) with share of total investment volume, (%)



Source: CBRE Research.

4.25%

Prime Yield (Q4 2023)

25%

Cross border investment (2023)

Interest rates have pushed office yields north

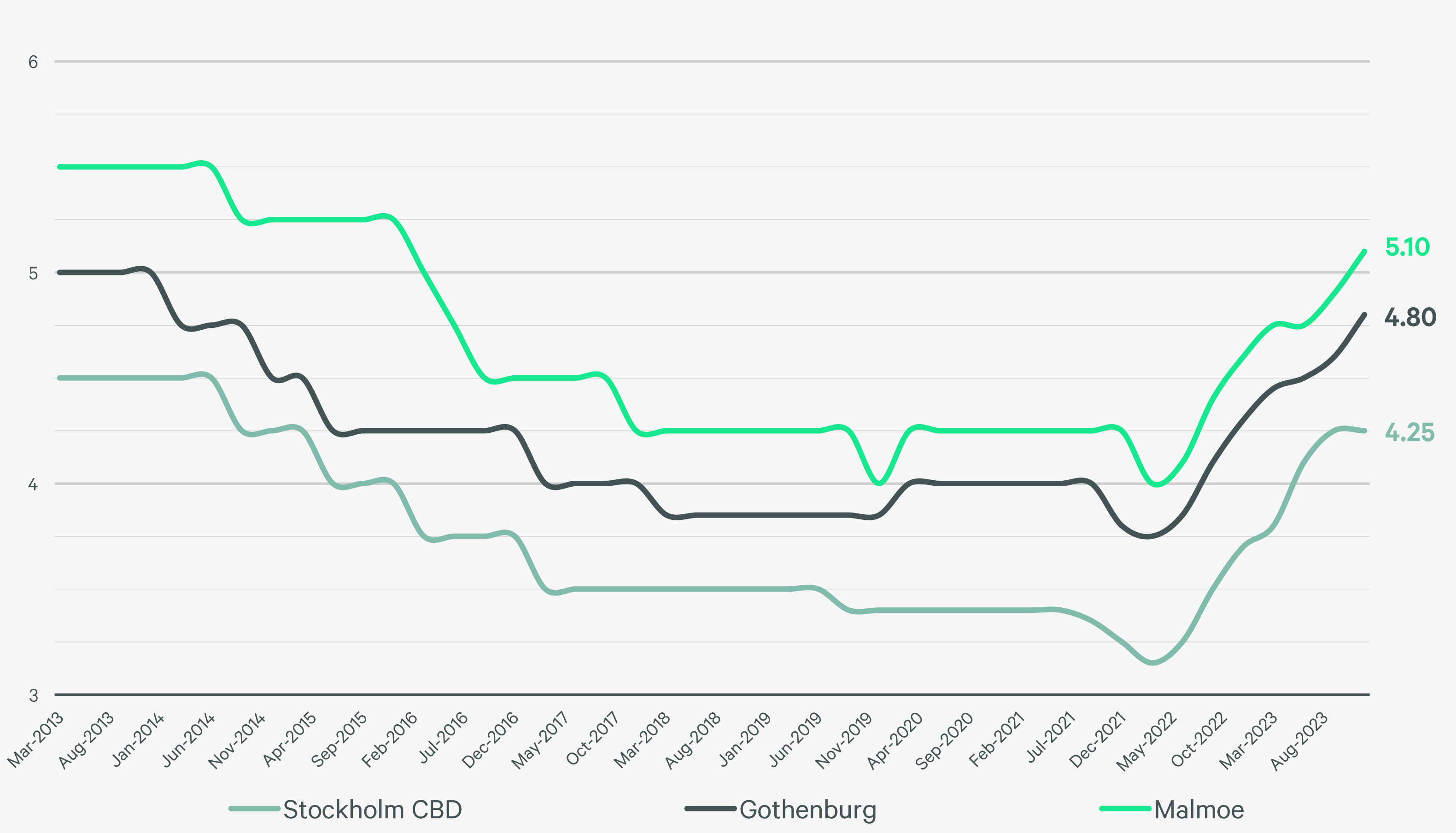
Further yield decompression

The office investment market continue to face some obstacles in 2024 as the lagging effect of rising interest rates continue to take its toll on this low yielding segment The prime yield continued to decompress in 2023, moving from 3.7% (Q4 2022) to currently 4.25% for a prime office asset located in Stockholm. CBRE notice a stabilizing yield in prime location Stockholm with continuing decompression in Gothenburg and Malmö in the end of the year. This development is expected to continue as strong domestic investors have no pressure to sell prime products and put products into the core markets. The yield spread between prime and secondary locations and submarkets are expected to increase.

Outlook for office investments

The office investment market enters the year from a low but with a recovering investor interest in the segment. Despite globally driven uncertainty, the long-term fundamentals of the Swedish office market demand remain solid, and the office investment is expected to pick up in the second half of 2024 together with the other segments as investors return to look for opportunities in the market when the interest rates have come down. Investors are also showing increasing interest in the segment which supports a more positive year ahead.

Figure 4.2 Prime office yields (%)



Source: CBRE Research.

Attracting and attaining occupiers

Rental growth in general expected to peak

Prime office rent in Stockholm has seen a positive trend in the past few years and is expected to continue to increase in the most attractive areas and assets. However, this trend is expected to soften, and rents are according to the CBRE Global Office Rent Tracker at a peak.

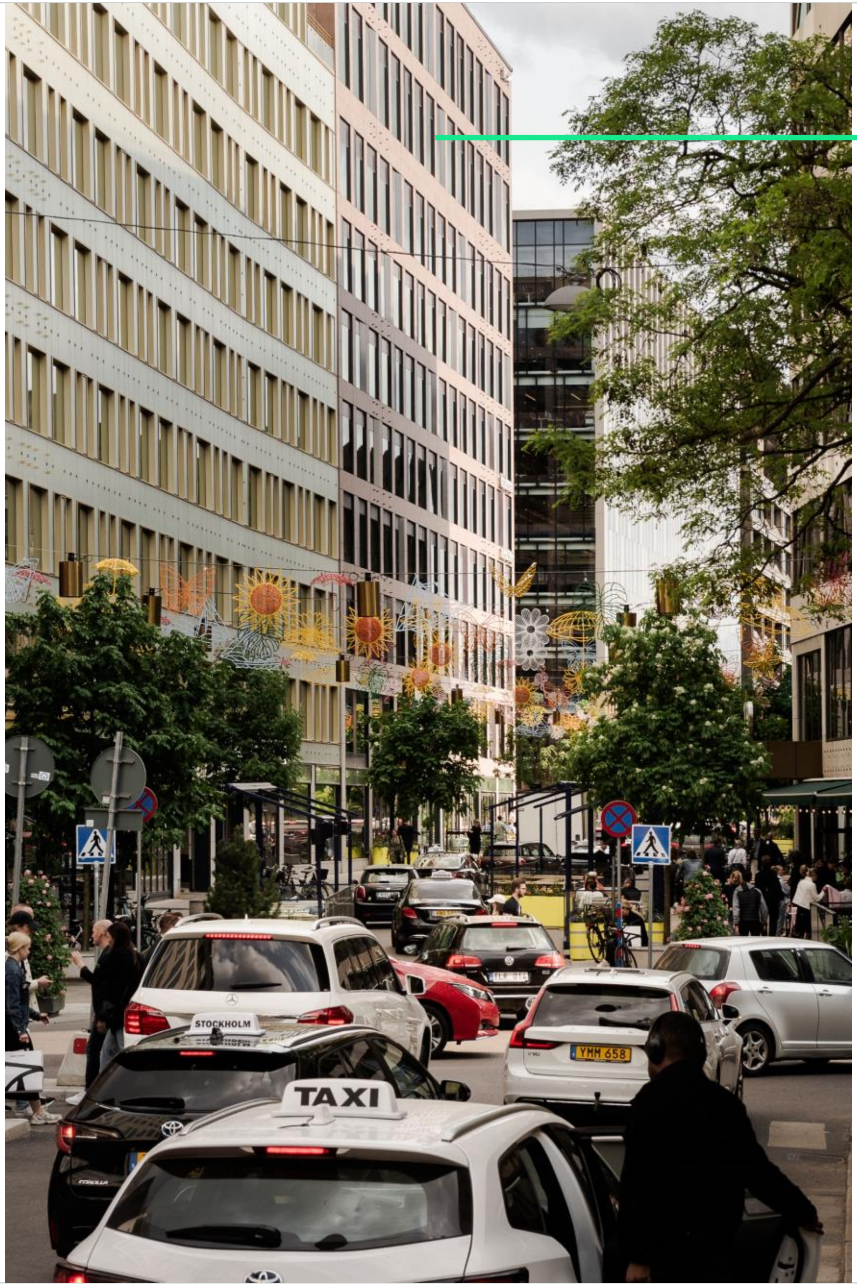
Exceptions for positive rent development are areas with a high degree of new production, which is not constructed on speculation, and areas with limited supply in general. For other areas landlords may face more work to be put on leasing ahead and therefore need to consider what occupiers demand to maintain a positive rent development.

Most attractive occupier amenities

The office occupier market is seeing a continuing flight to quality trend, and the gap between grade A and secondary office properties and locations has become more evident in 2023. Occupiers are interested in modern office buildings with green credentials located in convenient, well-connected hubs.

As CBRE summarized the 2023 Occupier Survey it was evident that the most attractive features for tenants are green lease clauses, building design to attract employees back, easy transportation access, surrounding services including flex offices, food and community.

To keep an eye on these aspects above landlords can provide a product that is competitive in the most recent coming years.



Efficiency and finding the right fit are key trends in 2024

8,500

/sqm/month (SEK)
Prime rent
Stockholm CBD

4.0%

Vacancy rate (Q4 2023)
Stockholm CBD

> "The spread between prime and secondary assets and locations has increased and may provide business opportunities as the market improve again."

Johanna Jonsson

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05

Logistics

Following a swift yield shift in the logistics segment, the investor appetite for logistics assets remained strong throughout 2023. A high proportion of speculative construction and low activity on the leasing market have, however, caused increased vacancy levels in certain submarkets.

Key Takeaways

01

Weak economic growth is likely to make 2024 a challenging year for real estate markets, but falling interest rates will act as a counterbalance in boosting growth and contributing to a capital markets revival.

02

Although still well above the 2% target in most European markets, inflation is falling rapidly. By Q4 2024, we expect Euro Area and UK headline CPI inflation to be 1.8% and 2.6% respectively, with the UK reaching the 2% target early in 2025. Real wage growth on the back of falls in inflation is a potential upside.

03

The next policy interest rate moves are likely to be downward. The first cut by the ECB could be as early as Q1 2024 if the economy remains weak. Cuts by the Bank of England are not expected until H2. Ten-year government bond yields have already peaked, and we expect them to decline gradually through 2024 and beyond, but to remain well above the ultra-low levels of 2015–2021.

Industrial & Logistics gain market share among the segments

A rapid correction of yield levels created possibilities

The investment volume for 2023 came in at SEK 25.5 bn (SEK 45.2 bn in 2022), which represented 30.7% of the total investment volume in Sweden. There has been a continuous robust interest in investing into the sector and the rapid correction of yield levels has created more possibilities for I&L deals in 2023 compared to other segments.

Cross-border investments increased to 48.5% (33.5% in 2022) and the prime yield has reached a level of 5.0%.

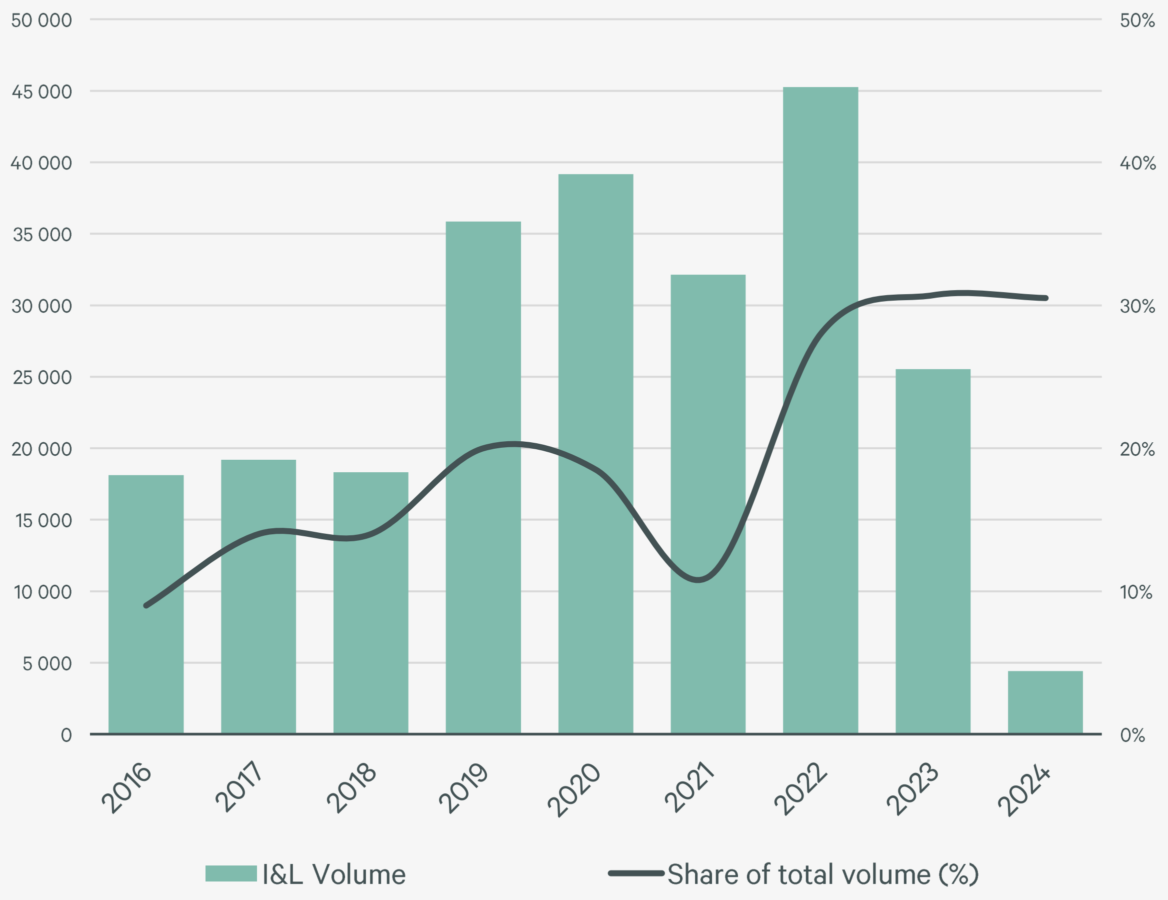
One of the most notable deals in 2023 was Logicenters' purchase of a five-asset portfolio in Rosersberg and Eskilstuna from joint venture Bockasjö and Kilenkrysset in the third quarter. A total of 120,000 sqm modern logistics assets, newly built and under construction, as well as unexploited land, at a price slightly above SEK 2bn.

Another notable deal was Blackstone divesting a prime logistics five-asset portfolio of 121,000 sqm in Gothenburg, Helsingborg, Västerås and Örebro to Cadillac Fairview (OTPP), demonstrating the interest from international capital to make an entry into Swedish logistics.

Short term occupier demand may impact 2024

Uncertainty regarding leasing activity and vacancy development in expansive areas may lead to more cautious investors in 2024. Yet, with the prime logistics yields decompressing in 2022 and 2023 the segment continues to look attractive as an investment ahead. Investors are focusing on strong locations and are seeking value-add opportunities. Assets with rents below market and shorter lease terms are attractive, as investors identify rent reversion potential ahead.

Figure 5.1 I&L investment volume and share of total investment (MSEK)



Source: CBRE Research.

5.0%

Prime I&L Yield (Q4 2023)

48.5%

Cross-border buyer share of total I&L investment volume 2023

Positive turn in the end of 2023

The leasing market is waking up after an early year pause

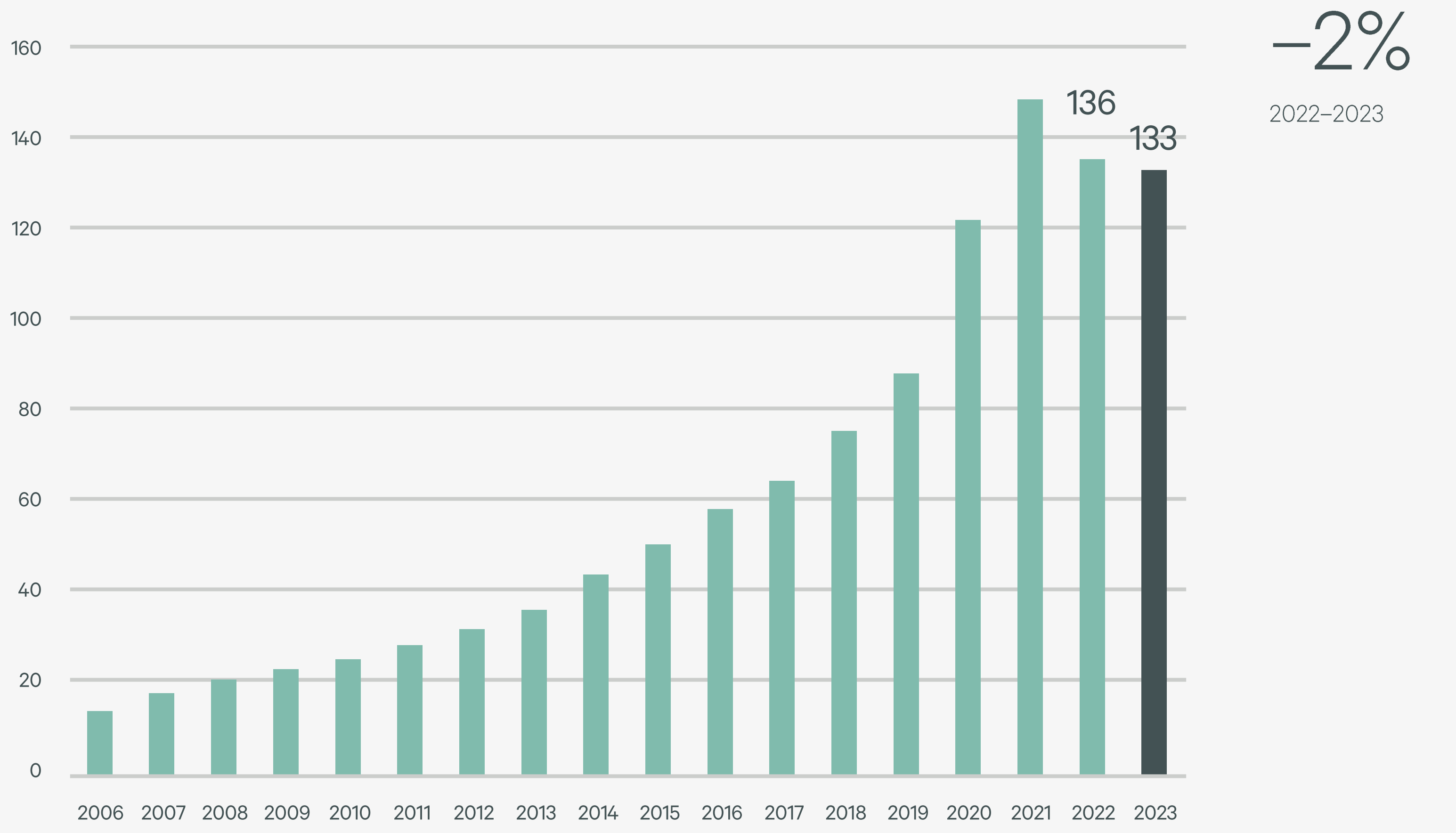
The leasing activity in the logistics segment has starting to regain activity, even so the average national vacancy rose to 4.5% in Q4 2023 (2.7% in Q3) after a large amount of speculative development reached the market and online retailers experienced financial pressure from inflation rates and falling sales in the beginning of the year. As the inflation rate has shifted down and sales in some of the sectors returned the leasing activity has returned. Forecasted completion figures are continuously being shifted down as developers are moving to postponing development starts to first find a tenant. This is favorable to create a more stable market ahead.

Local availability differ due to a larger rate of speculative development in some submarkets. A higher vacancy trend is evident in specific areas within the northern Stockholm region, Mälardalen and central parts of Sweden. In the Gothenburg region vacancy remain low. Occupier demand is driven by a lack of modern warehouse and last mile logistics space in city close locations. A softer occupier demand and high supply slows rental growth expectations in 2024.

Positive fundamentals speaks for a stable demand

Fundamentals of growth remain and the increased share of online shopping and the rise in parcel shipments drives demand for logistics properties, especially 3PL. The structural growth of e-commerce share in Sweden is expected to increase even after the pandemic surge due to the consumer convenience and popularity among the younger generations.

Figure 5.2 E-commerce in Sweden (bnSEK)



Source: PostNord eBarometern 2023

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“We support with local knowledge and network as conditions now differ more between different submarkets.”

06

Retail

With inflation falling back and rising real wages in the second half of 2024, fundamentals are expected to boost consumer spending and have a positive impact on retail sales. Prime locations continue to attract retailers with rents remaining stable and discount retailers continue to expand.

Key Takeaways

01

As disposable income for the Swedish consumer has weakened in the past years, the retail sector has experienced challenges. Non-cyclical groceries continue to perform, and pharmacies and discount goods have expanded. The luxury segment remains strong, supported by tourism partly driven by a weak currency.

02

Sweden have many bankruptcies in 2023 including sports retailers, car dealerships, restaurants and many smaller shops among them, resulting in softening rents and increasing vacancies in some areas of physical retail spaces. Retail parks and high street Stockholm is coping well.

03

To adapt to changing market dynamics, retail landlords are repurposing properties by incorporating mixed-use elements such as co-working spaces, entertainment venues, and experiential retail concepts to attract customers and drive footfall. CBRE is also noticing that investor interest in the retail segment is returning after many challenging years in terms of volume.

Supermarkets steady as other retail dip in volume

Large-scale retail transactions boosted activity

The retail segment had a challenging investment year in 2023 with a 51% drop in volume compared to 2022. Total annual retail investment volume came in at SEK 10.1 bn for 2023, making up 12.3% of the total real estate investment volume in Sweden and a similar level to 2022 (12.9%).

Yields have all increased between 35-80 bps YoY. And as per the rolling 4-quarter volumes show, supermarket deals are the most resilient in the segment. Big box deals are also gearing up in the end of the year. Transactions have been made all over Sweden and investors continue to remain mainly domestic with sellers including both cross-border and Swedish.

The repricing of the retail segment has been quite substantial in the past years, a development due to increasing financing costs together with risk aversion by investors. Demand for good quality big box and grocery anchored assets however remain strong.

CBRE are now seeing more of an interest in the segment compared to the years before and that the concern of increasing vacancies has become less of a topic in investor discussions. The remaining challenge is further repricing in some of the subsectors.

Figure 6.1 Moving 4-quarter volumes in retail sub-sectors (MSEK)

Source: CBRE Research.

Purchasing power shift to a positive trend in 2024

Retail is becoming more aware

Several demands impact the Swedish retail market with higher regulations ahead connected to sustainability, recycling and repairing. Pre-used good are also becoming more mainstream. At the same time low-cost retailers continue to enjoy a positive market environment and have continued to show positive sales since. Also, luxury goods show stability, putting most pressure on the mid-market segments.

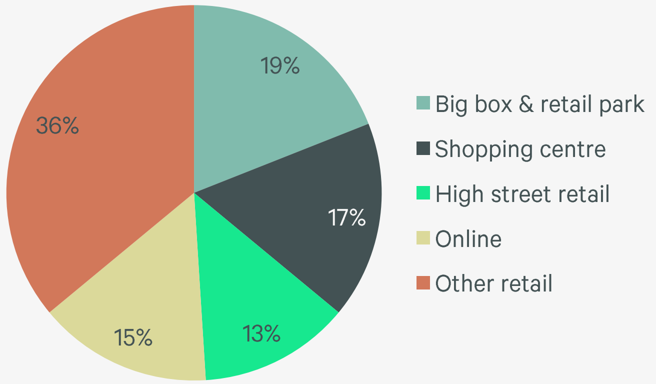
Fashion and shoes had a positive year in 2023 connected to a higher return to the office in Sweden and with many wanting to get their wardrobe up to date.

Even distributed retail sales channels

Online sales in Sweden reached 15% in 2023, a marginal setback after the pandemic boom and back on trend. Online pharmacy performed fantastic with a 17% increase compared to the year before, according to eBarometern by PostNord.

Sales generated from big box and retail parks exceed shopping centers at 19% in HUI Shopping centre figures for 2022. CBRE notice a continuing demand from retail park tenants, supporting the subsegment ahead.

Figure 6.3 Market share turnover by sales channel 2022



Source: HUI Shopping Centre Guide 2023 and CBRE Research.

Higher costs for retailers may soften rents

Retailers have been affected by higher costs due to price increases on stock, increasing operating costs and rent increases due to CPI adjustment clauses. This together with decreasing sales due to the current economic environment have created a challenging situation for tenants and the discussion on softening rents.

Occupiers focused on capital-intensive goods such as home furnishing, electronics and DIY have been the first to experience effects of decreasing purchasing power.

The lagging effects of high inflation rate and rising costs of housing will most likely affect household spending and the retail market in general in the first half of the year. The positive economic turn in 2024 with higher disposable income for many consumers due to expected falling interest rates and tax reductions from the summer creates possibilities for better sales.

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> “We support many expanding retailers in their pursuit of increasing their presence in the Swedish market.”

07

Living

Low yields and rising interest rates have impacted the living segment investment volumes. Rapidly increasing building costs combined with falling demand for owner-occupied units have increased focus on rental units. Rental units have also seen a declining construction pace which may lead to a shortage of stock in the longer term.

Key Takeaways

01 The multifamily investment market had a challenging year 2023 with a soothing strong rental growth which is expected to, together with low new supply, boost the segment from 2024 and beyond.

02 Owner occupier market for new production is both struggling and becoming less accessible for many people with a higher interest rate, which is increasing the demand for rental units ahead.

03 Sweden has a continuing strong population growth and high birth rate compared to many other European countries, supporting a stable housing demand in the coming years.

Leaving a record challenging year for the living investment market

Low volume 2023 expected to increase in 2024

The Swedish Multifamily Investment Market has been exceptionally challenged in 2023 with the total annual volume coming in at only SEK 16,9 bn, a significant drop from the SEK 131,6 bn in the record year of 2021. Rising interest rates have impacted the low yielding living assets which has for a longer period been dominated by domestic investors. However, a few deals in 2023 have been made with cross-border capital, a positive signal compared to Q4 in 2022 which solely comprised of Swedish property companies. Deal sizes are generally also smaller compared to previous years and there have also been a couple of condominium conversions lately.

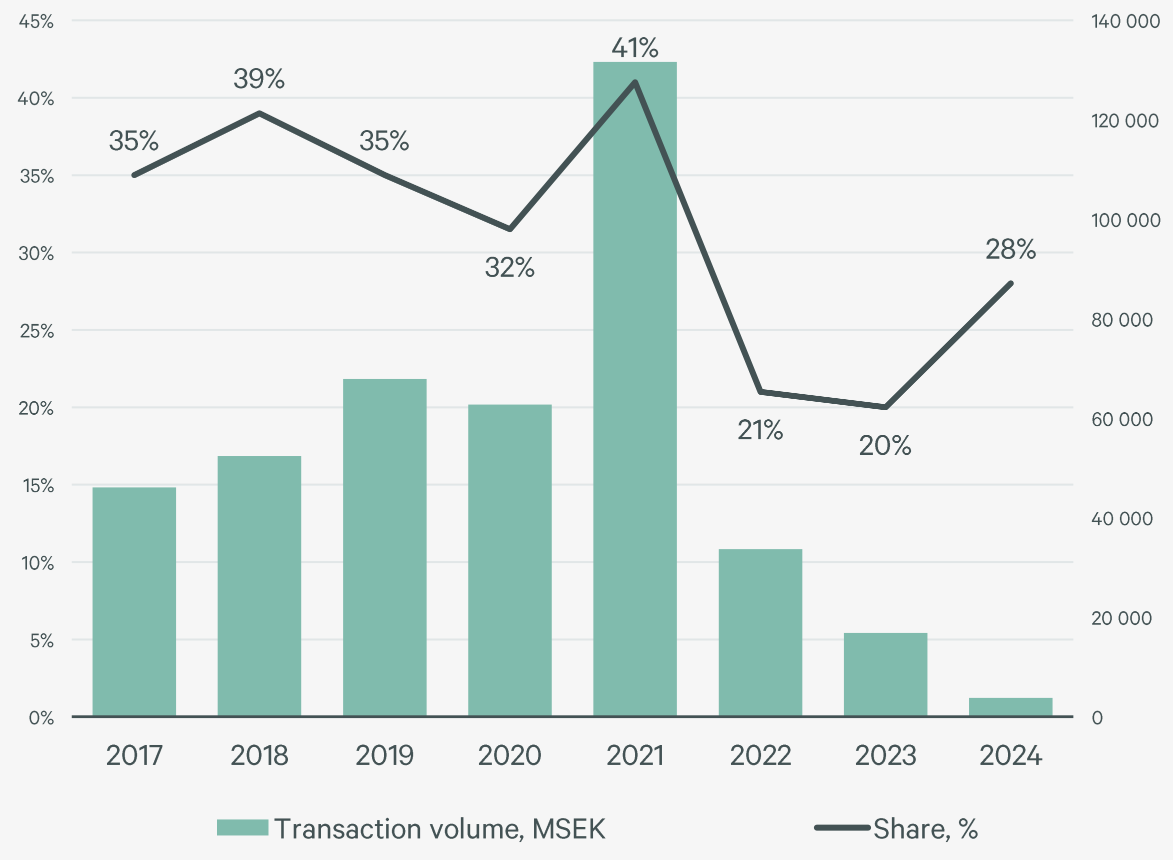
The residential investment market has been affected by increasing interest rates and increasing construction costs. Activity in the transaction market is expected to increase again when the inflation rate and interest rates have stabilized, which is expected in 2024.

Pricing of assets spread wide

The prime yield continued to decompress in 2023, from 4% (Q4 2022) and is currently at 4.5% in Q4 2023 for a prime new production asset located in Stockholm.

CBRE notice a widespread in pricing entering 2024 and expect the strong rental growth in 2023 and expectations for 2024 to have a soothing impact on the investment market as other segments loose rental growth traction.

Figure 8.1 Residential transaction volume, (MSEK) with share of total investment volume, (%)



Source: CBRE Research.

4.50%

Prime Yield (Q4 2023)

84.6%

Domestic buyers (2023)

Continuing falling construction activity expected to create a shortage of stock and positive growth of demand

Construction activity slows down further in 2024

68,100 apartments were constructed in Sweden 2021, the highest level in Sweden in over 30 years. Since then, the newly added units to the market has declined and is expected to continue to do so in the coming years. The reason is higher construction costs connected to financing, a lack of building materials and inflation in combination with falling demand as the consumer purchasing power has decreased. All these factors combined have made projects less profitable. This development is expected to create a shortage of stock ahead, which impact positively on demand for new production.

Thinking new through the eye of the storm

With a falling demand for owner occupied units, developers have sought new solutions, including converting projects to rental units or even hotel. Unique project conditions determine the possibilities for such change of plans. Another challenge in the current market is the high rate of bankruptcies among construction companies which is problematic as the possibilities to start new projects decrease when the market turns around again.

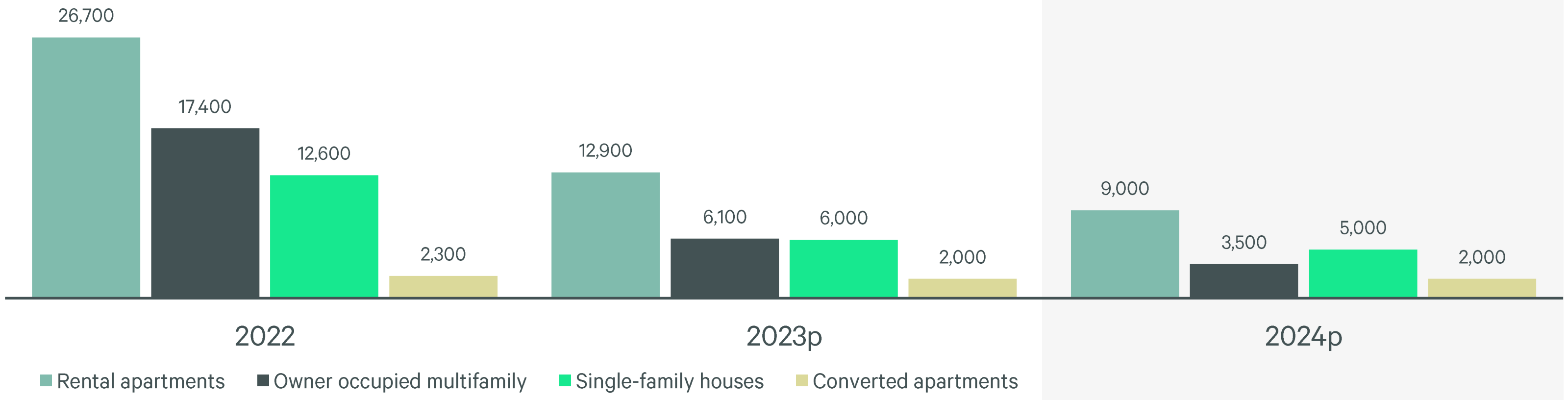
Population growth and need of new supply

The population in Sweden is positive and forecasted to increase to 10.6 million, or 1.8% (188,294 people), by 2025. According to the latest demographic forecast the annual population growth in the coming three years are 55,000 people. The long-term construction rate is expected to be much lower than the annual adding of 67,000 units which, according to the Swedish Housing Authority's latest construction needs assessment, need to be constructed until 2030.

Outlook 2024

Despite challenges in the market in the short term, the long-term fundamentals of the Swedish residential market remain. The outlook for apartment completions is weak. Adding the annual increase in population, a continued lack of housing beyond 2024 is likely, although it will vary between locations. Rising interest rates and inflation remain a challenge for homeowners and investors. However, the growth drivers remain intact, and rental apartments will in relative terms become a more attractive option for housing as high interest rates impact mortgage cost on the owner-occupied market. Swedish private homeowners are exposed to high interest rates by having higher LTV and floating rates in a global comparison.

Figure 8.2 Construction starts per residential type



Source: Boverket, CBRE Research.

“The multifamily investment market continue to face challenges, let us help you make the best decision for your project in 2024”

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08

Hotel

The Swedish hotel market had a fantastic year in 2023 as the post-pandemic pent up demand for leisure travel, international tourism and company conferences all boosted the market. The growth in 2024 is not expected to be as strong yet stable.

Key Takeaways

01

The hotel real estate market in Sweden is experiencing a surge in demand as the country becomes an increasingly popular tourist destination, resulting in a rise in occupancy rates and average daily rates for hotels.

02

The growing trend of sustainable and eco-friendly travel has led to the development of more environmentally conscious hotels, which are in high demand among both domestic and international visitors. Destination hotels are becoming more popular.

03

In response to the changing preferences of travelers, hotel owners are investing in technology and incorporating smart features into their properties, such as automated check-in systems, mobile room keys, and personalized guest experiences, to enhance convenience and customer satisfaction.

Read more on the Nordic hotel market by clicking on the report above

Stable transaction market for hotels

Starting off 2023 and 2024 strong

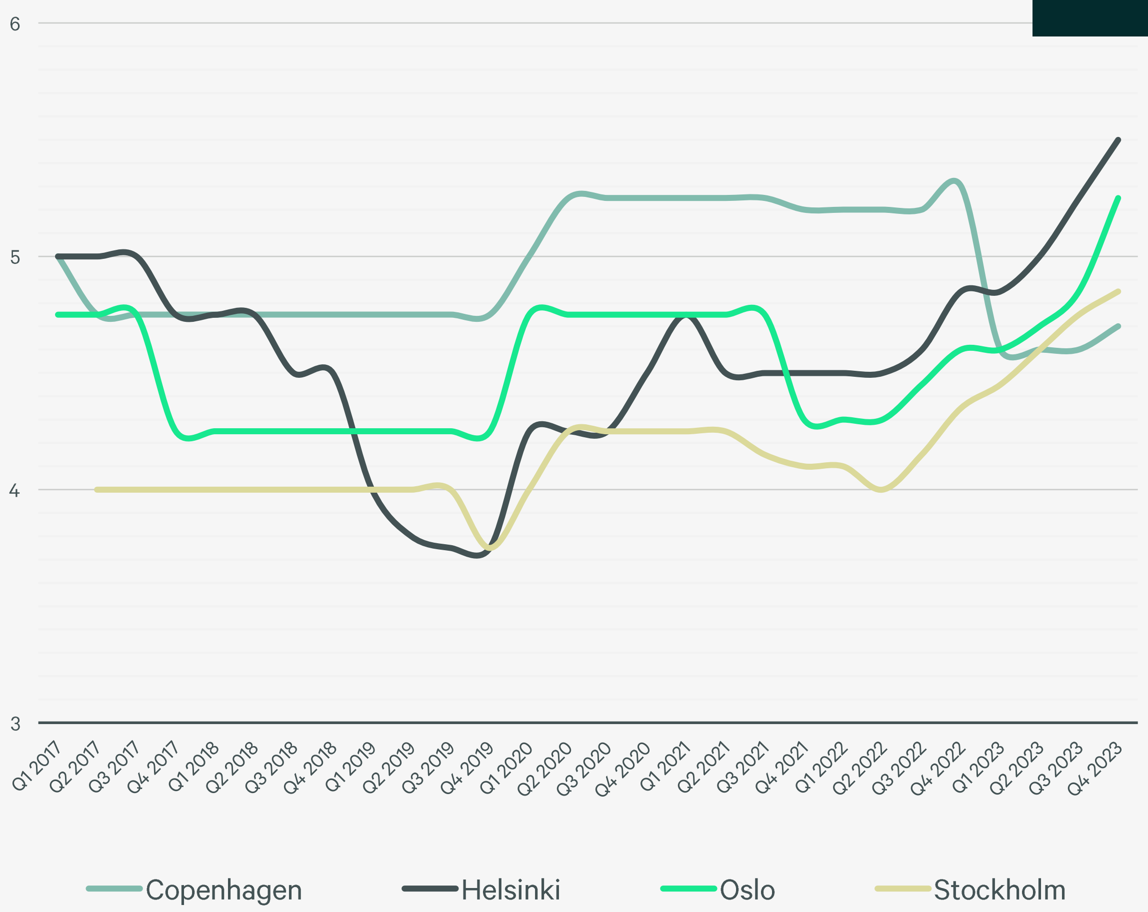
The Swedish hotel transaction activity remained stable in 2023 with a total of 9 deals geographically spreading all over the country. The annual total volume came in at SEK2.3bn in 2023 (2.77 in 2022). Notable deals in 2023 are DNB Liv's acquisition of Hotel C in Stockholm, Pandox' purchase of the Best Western Plus Fridhemsplan, marking the first transaction by the investor in many years in the Swedish market and the Olav Thon Groups acquisition of Hotel Terminus on vacant possession. 2024 has started strong with the Balder investment in Hotel Karlatornet in Gothenburg in February as a part of a barter deal.

During the last couple of years, most investors have been hotel owners, Swedish property companies and institutional investors. The leading hotel owner in the Nordics continues to be Pandox.

Yields have continued to move out

Prime yields continued to move out in the Nordic hotel markets in 2023 along with the increased interest rates and higher financing costs. The prime yield for Stockholm has decompressed by 185 basis points from the Q2 2022 low and currently at 4.85%. The negative trend is expected to shift in 2024 as central banks are expected to ease their tightening of interest rates.

Figure 8.1 Hotel prime yields in the Nordics (%)



Source: CBRE Research.

4.85%

Prime Hotel Yield Stockholm (Q4 2023)

2.73bn

Total hotel investment volume Sweden in 2023 (SEK).

Demand boosted by tourism

Prepandemic rebound in occupancy in 2022

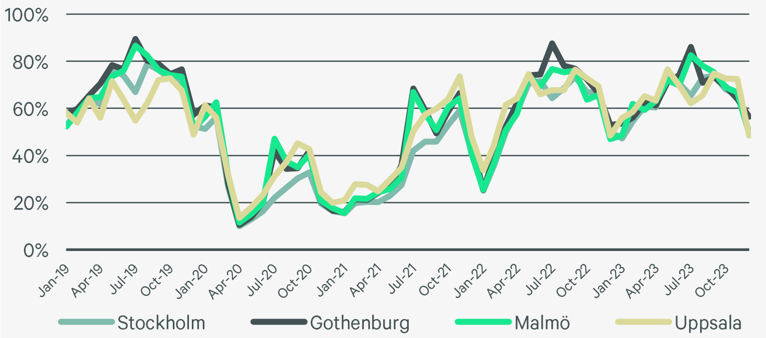
Overall, the RevPAR growth for 2023 was robust across all the top four cities in Sweden, with increases observed compared to both 2022 and 2019. These RevPAR increases were primarily driven by Average Daily Rate.

Particularly noteworthy are the double-digit growth rates in Malmö and Uppsala. The influence of the depreciated Swedish currency is most evident in Malmö, where there has been a notable surge in Nordic demand and an increase of around 50% compared to 2019. With limited supply increases and Malmö hosting the Eurovision song contest, both Malmö and Stockholm are poised for continued growth in 2024 (although ADR increases are expected to soften). On the other hand, Gothenburg, despite its track record of hosting mega events that fuel demand for rooms, is expected to see a softening growth driven by supply increase. Gothenburg has had a significant increase in the supply of available rooms, approximately 25%.

Strong operator demand

The hotel market is dominated by a small number of operators, mostly domestic and in general, international brands are unestablished on the market given the preference to hotel leases by the region's banks and owners as opposed to management contracts. This situation is changing as European white label operators are entering the Nordics subject to franchise agreements with the world's largest hotel brands (such as IHG's entry in Kista with white label operator Mogotel).

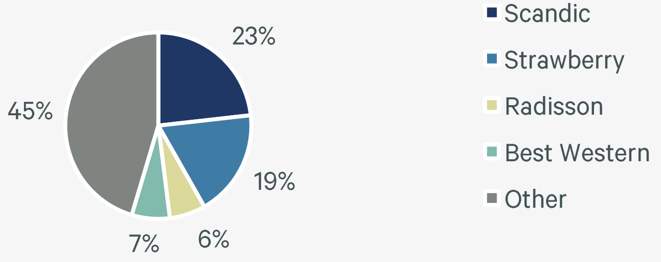
Figure 8.2 Occupancy rates (per month)



Source: Benchmarking Alliance, January 2024.

Figure 8.3 Operator Market Share

Largest hotel chains in Stockholm City Center by number of rooms



Source: CBRE Research, September 2023.

RevPAR Stockholm FY 2023

SEK 841

+ 16.5% YoY / + 5.4% to 2019

RevPAR Gothenburg FY 2023

SEK 869

+ 6.3% YoY / + 8.1% to 2019

RevPAR Malmö FY 2023

SEK 664

+ 15.3% YoY / + 11.8% to 2019

RevPAR Uppsala FY 2023

SEK 678

+ 12.7% YoY / + 16.1% to 2019

“We see a continuing demand for destination hotels in Sweden as the shift from business to leisure travel has made its mark.”

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09

Data centre

With an increasing demand for capacity in the region, the growth of the Swedish data centre market is expected to continue in the years to come.

Key Takeaways

01

The data centre real estate market in Sweden is expected to experience further growth in 2024, driven by the increasing demand for cloud computing, digital services, and data storage solutions.

02

Sweden's favorable climate conditions, including cool temperatures and abundant renewable energy sources, have positioned the country as an attractive location for data centre infrastructure, leading to the establishment of new and expansions of existing facilities.

03

With data privacy and security becoming paramount concerns, data centre operators in Sweden are focusing on implementing advanced security measures and complying with stringent data protection regulations, making them attractive options for businesses looking to store and process sensitive information.

Digital transformation drive demand

Growing demand for cloud services

The demand for digital services in a modern society grows with the demand for a wider connected digital ecosystem. The demand is also increasing for cloud services, which drives the data centre market in Sweden. Data centre providers in 2024 are also expected to see increasing requests for capacity from companies connected to AI.

Maturing data centre operator market

As the largest player in the Nordics, Sweden offers a vibrant and dynamic data centre market which combines leading international brands with established as well as new-and-innovative local and regional providers offering colocation and other data centre services.

The country has also become home to hyperscale cloud giants that use the market to provide and produce applications. All of these companies leverage the country's natural advantages to promote some of Europe's most efficient data centre operations. From low-cost power to a cold climate ideal for free cooling and wide-spread heat re-use initiatives, the Swedish market has data centres that appeal to companies wanting to operate with a reduced environmental footprint serving local, regional and global requirements.

Companies also enjoy a politically stable environment with low geographic risk, high quality power and transport infrastructure. The share of renewable energy sources has a stable positive development.

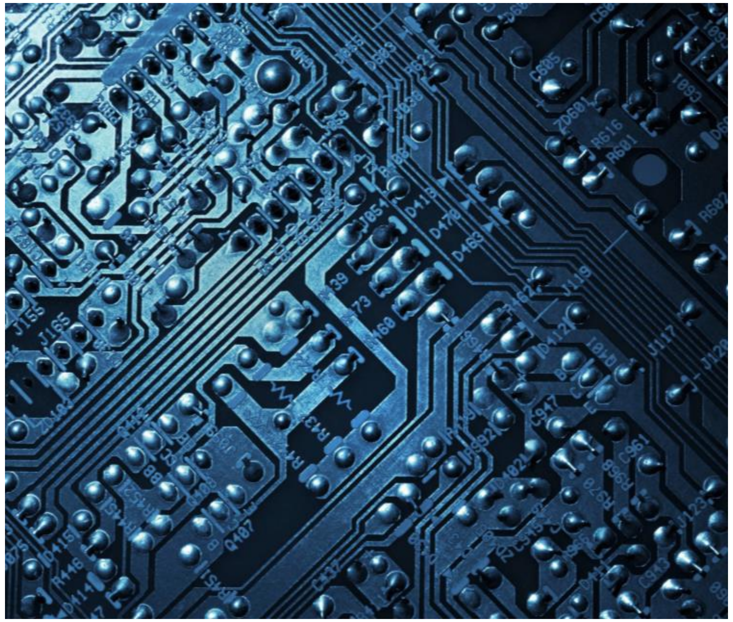
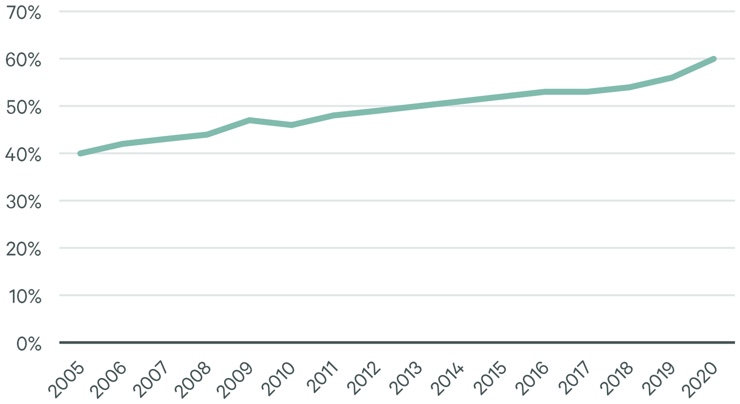


Figure 9.1 Share of energy coming from renewable sources (%)



Source: Swedish Energy Authorities.

In depth data centre reports

The CBRE team produce in depth data centre reports for different markets in Europe, including Stockholm. Please reach out if such a report is interesting to you and your company.

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> “We notice an increasing interest in and market for data centres in Sweden.”

10

Community properties

Demand for community properties continue to be substantial and with the municipalities and other public and government backed tenants interested to rent space the market is continuing to mature.

Key Takeaways

01

The community property investment market is maturing and becoming an established segment in Sweden, including all government financed operations. Tenants generally sign long contacts and are financially backed by the government, which create attractive assets if the price is right.

02

An increasing elder population in Sweden and shortage of both elderly and care homes create investment possibilities in the years to come. Many care homes were constructed in 1960-1980 and do not reach the standards of today, giving demand for new development continuing to create possibilities.

03

As the Swedish government has started to aim for reducing gang violence both police and especially prison related buildings are in need ahead. These assets together with educational premises are crucial for prevention and building a safe society. The Swedish entry into NATO also provide investment possibilities connected to the Armed forces.

Maturing investment market for Community properties

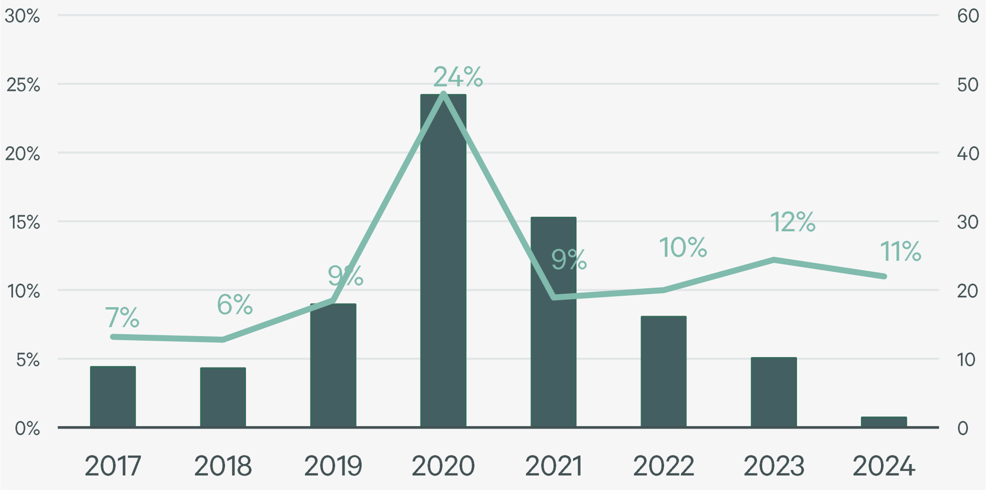
Market impacted by large asset supply and risk averse investors

The investment market for community properties had especially good years in 2020 and 2021, much due to the rapid expansion of SBB (Samhällsbyggnadsbolaget AB). With the rising interest rates SBB swiftly moved from acquiring to being pushed to divest. Now the municipalities selling assets in the record years are in some cases buying these assets back and the volumes in the segment has been pushed down.

The community property investment market totalled SEK 10.1 bn in 2023, which is however an increase in the total share of the market (12%) compared to the previous two years.

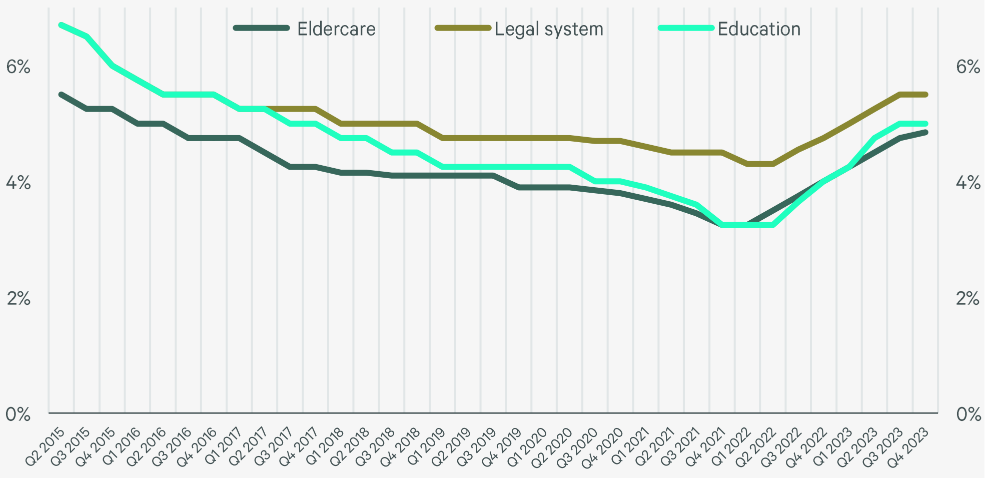
Outside of structure deals the investors active in the last year have mainly been domestic, both on the acquiring and divesting side. Municipalities or other public tenants and developers have been the main sellers. Apart from municipalities repurchasing from SBB, the buyers have mainly been funds and property companies.

Figure 10.1: Public sector transaction volume, (MSEK) with share of total investment volume, (%)



Source: CBRE Research

Figure 10.2: Prime Yield development, (%)



Source: CBRE Research

A historical positive yield development turned and expected to bottom out 2024

The community property yields have had a stable decompressing development from early 2015 up until 2021. Sharp interest rate hikes in combination with a high degree of market uncertainty have led to decompressing yields from 2021 up until today. The elderly care prime yield is in Q4 2023 were 4.85%, legal system prime yield assets at 5.5% and education at 5%. With peaking interest rates in 2024 the fundamentals for yields also starting to peak increases.

Favourable tenancy contracts

Tenants generally sign long contacts and are financially backed by the government, which create attractive assets. Investor currently favor contracts with municipalities and other government entities to private operators. Many buildings are also leased with triple net contracts.

Increasing demand for modern care homes

By 2040, Sweden is expected to have 1 million more people in the population. The share aged 75+ will increase with more than 40% by 2040, reaching 1.5 million people. This dramatic increase in elderly puts pressure on the demand for care homes in Sweden.

Increasing population of people aged 75+

According to the Swedish Housing Authority (Boverket) the number of people aged 80+ will rise from 550t to 800t people by 2030. The share of people aged 80 years old and above is expected to reach 8% of the total population in 2040, to compare with approximately 5% today.

This increase is forecasted across all counties and municipalities and to meet the elderly citizen increase, the construction of new elderly and care homes need to be stepped up. A large part of current elderly and care homes in Sweden were built 1960–1980 and do not meet modern requirements, these assets need to be replaced gradually to modern facilities. The shortage of care homes is obvious and create possibilities for investors able to develop these.

The investments needed in community properties in the years to come are significant and with publicly financed operations in the buildings the tenants can be deemed stable, and the asset type an attractive investment.

Public tenants are opening for private landlords

Many municipalities are for cost reasons interested to limit real estate ownership to focus on the core mission to provide community service. Together with the Swedish government aim to reduce gang violence both police and especially prison related buildings are in high demand. These assets together with educational premises are crucial for prevention and building a safe society. The Swedish entry into NATO also provide investment possibilities connected to the Armed forces.

> "We help our clients access attractive assets and assist on in depth analysis within the community property market"

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