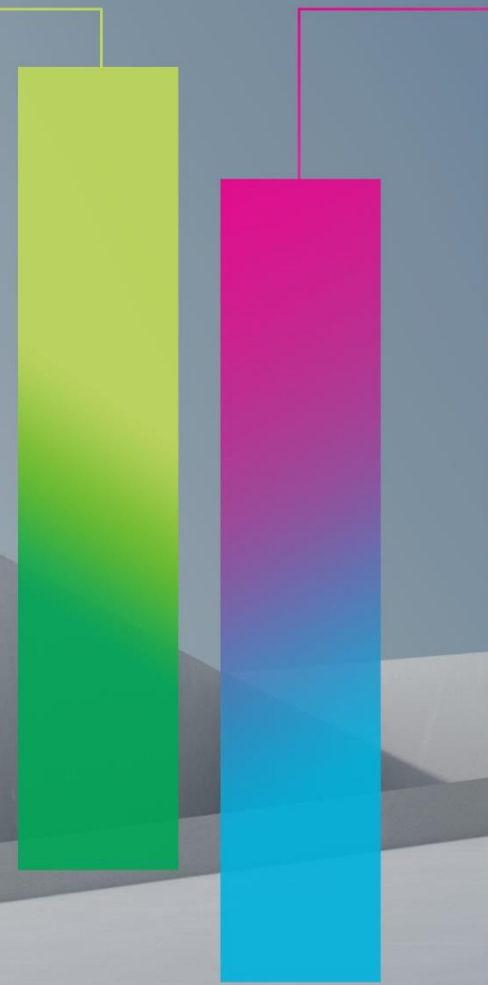


20  
21

CBRE RESEARCH | NORDICS

NORDICS REAL ESTATE  
MARKET  
OUTLOOK

SWEDEN



cbre.com/sweden

CBRE



## 04

### ECONOMY

Sweden's real GDP growth is forecasted at 3.0% in 2021 and 3.7% in 2022. Despite an increase in gross government debt, it will not reach very high levels in an international context.

## 06

### INVESTMENT

Investors will continue to favor asset types such as multifamily, logistics and healthcare in 2021. Sectors with higher uncertainty in the occupier market will need more time to start the recovery.

## 08

### BEDS

The multifamily segment saw, as one of few segments, yield compression during 2020. Despite yields moving down, the prime yields for new production in the capital region doesn't look challenging in a European context.

## 10

### RETAIL

Big box retail has benefited from the change in consumer patterns during the pandemic. As the discrepancy in pricing between retail and other asset classes become more underscored, investors that are hard-pressed to find more high-yielding assets in the current environment, will have a look at the segment.

## 12

### OFFICE

Going forward, an increased investment market activity will likely depend on higher visibility in the occupier market. As market conditions return more to normal later in 2021, it will make it a lot easier for investors to make decisions about investing.

## 14

### LOGISTICS

The rapid increase in e-commerce during the global pandemic has fueled the need amongst occupiers to expand their premises to accommodate the new demand. This is especially true for e-commerce and TPL companies.

## 16

### OPERATIONAL REAL ESTATE

The stable demand and high visibility in the occupier market have attracted interest in the investment market throughout the pandemic. We believe this interest will be sustained into 2021, but that the investor base will continue to be predominantly domestic also this year.

## 18

### HOTELS

Business travel will likely look different post-pandemic, and some trips are likely to be replaced by digital solutions. Not only because of the cost efficiency component, but also because sustainability will only increase in importance. For leisure tourism, there is a strong resilience, and domestic leisure travel is expected to recover first.

# RESTART THE UNEVEN RECOVERY



**PATRIK KALLENVRET**  
Managing Director, Sweden

2020 has been a year of rapid change, and the effects will carry into 2021. For the Swedish real estate market, the effects are mostly felt in different manners in the occupier markets. How fast the economy and the market will recover depends on how well the vaccine distribution will work out, and how long the current restrictions will be in place.

Not being able to travel, along with the encouragement to work from home, has had its effects on the office, retail, logistics as well as housing markets. Many households have focused their energies on moving to a larger home to get more space as the office moved in. As commuting became less necessary and travel restrictions made it impossible to go abroad, we have also seen a spike in holiday house prices.

Groceries, DIY and gardening, often located in big box areas, have seen sales growth as households have decorated their new workplaces. Footwear and fashion have suffered greatly, in physical stores as well as online. When restrictions can start to be eased, it is likely that pent up demand will be channelled first towards retail, restaurants and similar, rather than travelling, as it will take time before all countries have distributed the vaccine. It is therefore possible that we will see a return of the shopping centre in the second half of 2021, and the return of leisure travelling.

The spike in e-commerce during the year means we will see a spike in completions of logistics space during 2021– first half of 2022. As most of the new space is made built-to-suit, we don't see a major risk for a vast increase in vacancy rates. The spike is, after all, driven by a growth in demand. Larger warehouses for TPL providers and online groceries with cold storage are some of the megatrends in the market shaping logistics.

Stable sectors with little or no impact on the occupier markets, such as rental apartments and elder care, continues to attract more interest than ever.

EMEA REAL ESTATE  
MARKET OUTLOOK 2021 | SWEDEN

## ECONOMY



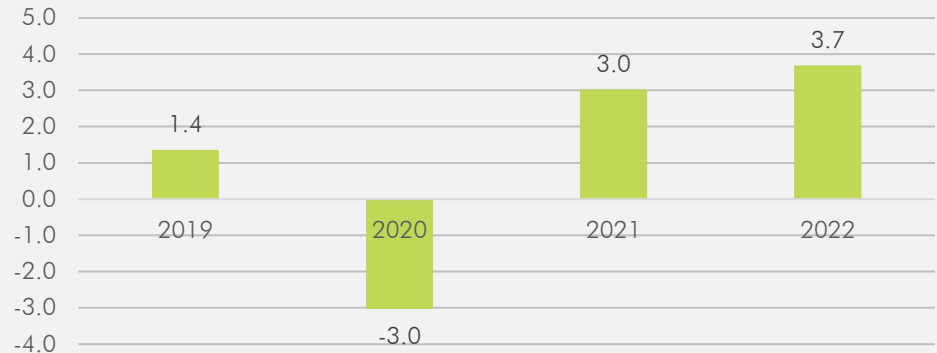
CBRE

## THE PATH TO RECOVERY

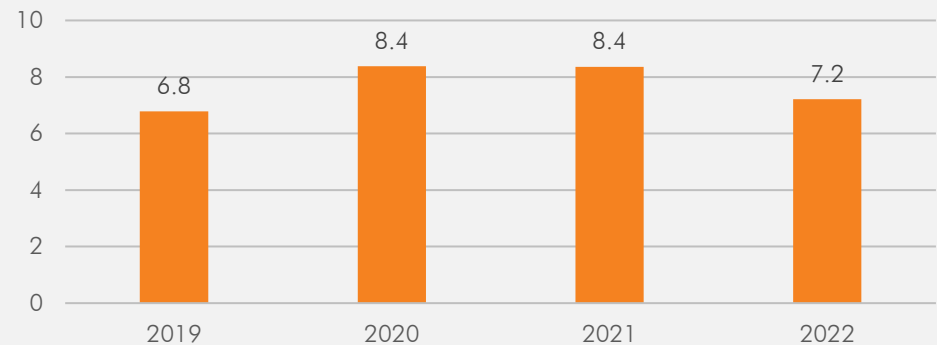
- Sweden's real GDP growth is forecasted at 3.0% in 2021 and 3.7% in 2022. That can be compared to the Eurozone (1.7% and 8.8%, respectively), and it should be seen in the context of the Eurozone contracting with -7.3% in 2020 whilst Sweden contracted by "only" -3.0%. The forecast builds on the assumption that the vaccine makes it possible to return to normality during the 1st and 2nd quarters.
- Domestic demand and private consumption are set to return to growth, fixed investments will increase, and the government will continue with an expansive fiscal policy. The vaccine helps improve consumer and business confidence.
- As labor markets lag the real economy, it will take longer time for it to recover. The unemployment rate will remain high throughout the year and not start to fall back until 2022.
- The gross government debt is set to reach 53.7% (from 52.5% in 2020 and 46.6% in 2019). It's high in Swedish terms, but low in a European setting. It also remains substantially below the Maastricht requirement.
- The Swedish currency, SEK is believed to be substantially stronger against the USD in 2021. In bad times, capital tends to favor large currencies such as the USD. As we start to get out of the crisis, this trend is expected to reverse.
- The Swedish Central bank isn't expected to move the interest rate during the year and remain at 0% also during 2022. CPI is expected to average 1.6%. There is still room within the current Central bank program for asset purchases, as far from everything has been used. The total program is worth roughly SEK 1,800 bn, and it has been prolonged to last until 31st of December 2021.

Source: Chart 1) CBRE Research, Chart 2 – 3) Oxford Economics

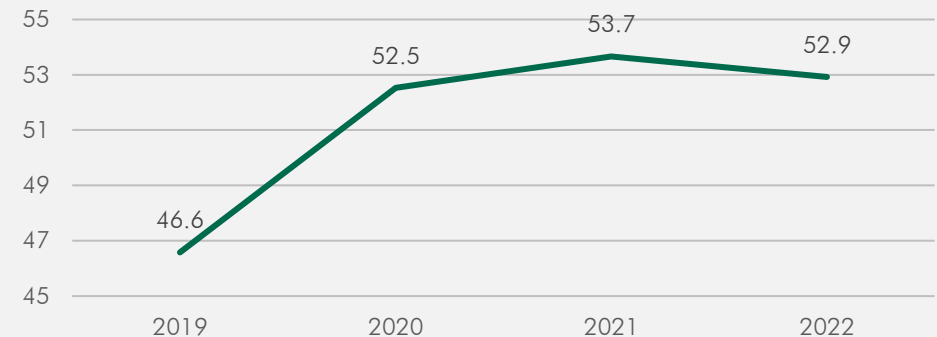
### FIGURE 1: GDP, annual growth (%)



### FIGURE 2: Unemployment rate (%)

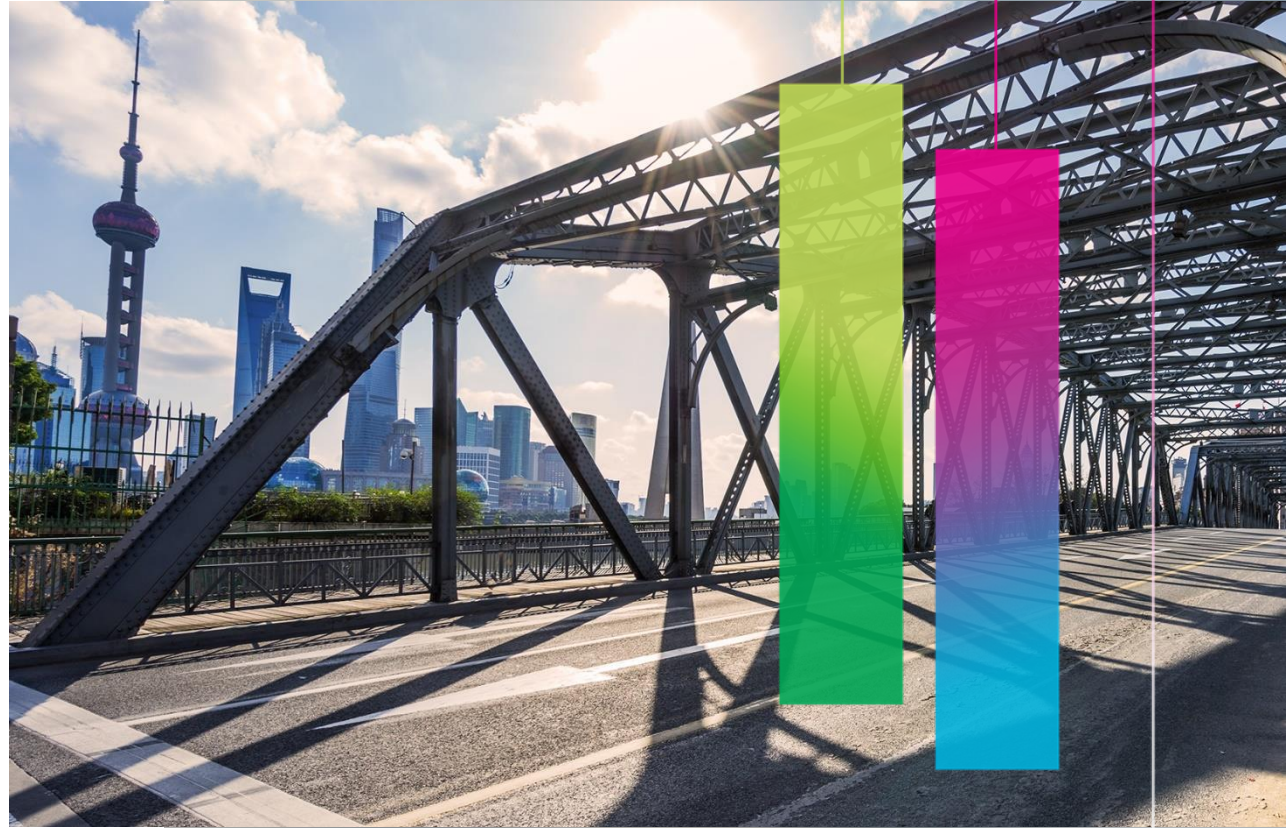


### FIGURE 3: Gross government debt (as % of GDP)



EMEA REAL ESTATE  
MARKET OUTLOOK 2021 | SWEDEN

## INVESTMENT



CBRE



### THROUGH THE REARVIEW MIRROR

- The Swedish investment volumes decreased slightly by -4% in 2020 compared to 2019 (in local volume), and came in at 186 SEK bn. The residential sector was the largest commercial real estate type despite a decline of -14% compared to 2019.
- Healthcare properties was the second largest segment and Industrial & logistics was the third largest, despite declining with -5% compared to 2019. Office investment volumes declined with -45% compared with 2019 on the back of higher uncertainty in the economy, and insecurities about future occupier market trends.
- Including the Hemfosa buyout, healthcare property investment volumes came in at 45 SEK bn in 2020. Excluding this deal, volumes were at 11.2 SEK bn. This was lower than 17.9 SEK bn in 2019, but substantially higher than the 8.6 SEK bn recorded in 2018.

### THROUGH THE WINDSHIELD

- Investors are generally favoring secure and defensive assets at the moment. This includes asset types such as multifamily, logistics and healthcare.
- In segments with more insecurity about the occupier market, we expect more off-market deals at the start of the year. This includes asset types such as office and hotels. As the year progresses and vaccination has been distributed in the population, the visibility will become higher in these occupier markets.
- Retail has uncertainty in the occupier market in some ways, but as it is a polarized segment there are also retail properties that see interest, such as grocery-anchored retail parks.
- Considering the amount of equity targeting the logistics and multifamily sectors, yields across these asset types may see incremental compression in 2021. In surveys we have conducted, investors seem generally willing to bid up prices for these. For office assets, by contrast, the buyer and seller expectations remain farther apart.



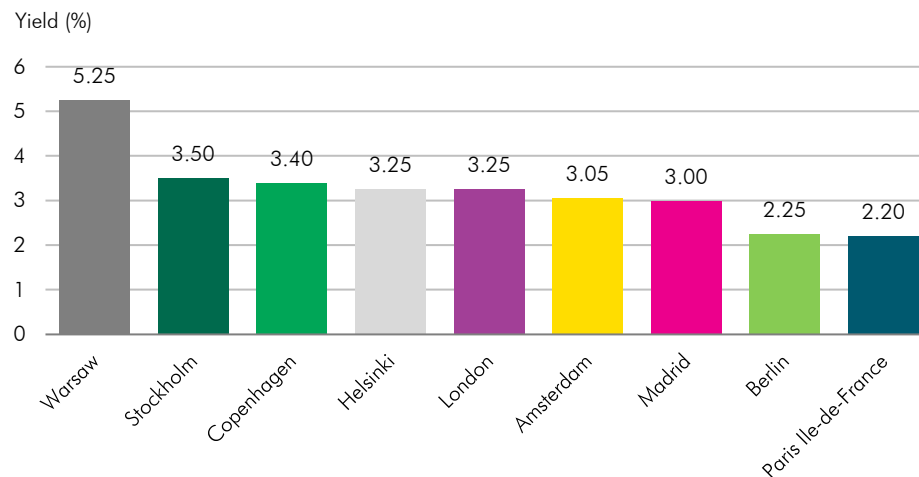
BEDS



## THE MARKET DURING 2020

- Multifamily is a well-established segment in Sweden and has been the dominant asset class for many years. No less so in 2020, as the COVID-19 crisis has highlighted the relative resilience of the beds sector.
- Despite a smaller downturn from the record-levels in 2019 on the back of large M&A deals, multifamily remained the largest segment in the investment market for commercial real estate.
- Co-living is so far embryonic, but some trials of the concept have been carried out. Student housing is growing as a sector but so far only corresponds to roughly 2% of the stock, making it a niche segment for the Swedish market.
- The government facilitated the access to the unemployment benefits during the pandemic, which along with a robust welfare system has ensured income for the more fragile households.
- Increasing housing prices in the owner-occupied part of the market has likely been underpinned by the temporary removal of the amortization rules, as well as measures implemented to soften the blow of a weaker labour market, and continuously cheap financing.

**FIGURE 4: RESIDENTIAL YIELDS, PRIME CAPITAL CITY, December 2020**



Source: CBRE Research, December 2020

## OUTLOOK FOR 2021

- Because of the travel restrictions, the share of foreign investors was very low in 2020, merely 9% compared to 56% in 2019 and 33% in 2018. As these are lifted as more inhabitants are vaccinated, it is likely that the share of foreign investors will be higher in 2021.
- The increase in housing prices in 2020 will, if sustained, likely increase the pace in the residential construction in the medium term.
- The government support for the construction of rental apartments with lower rents is ramped up to 3 SEK bn in 2021 (from 2.1 SEK bn in 2020). Developers are likely to apply for and use it also in 2021, but uncertainty will increase from next year, as it is election year.
- The multifamily segment saw, as one of few segments, yield compression during 2020. Despite yields moving down, the prime yields for new production in the capital region still doesn't look challenging in a European context.
- As interest from investors is expected to continue, multifamily may see yield compression also in 2021, especially since the occupier demand continues to be strong.
- As some suburban markets are seeing a price equilibrium in capital values between the co-op properties and multifamily rental properties, developers will be more likely to look into possibilities of shifting current and planned projects from co-op to rental.

RETAIL



## STRONG POLARIZATION BETWEEN ASSETS

### MIXED OCCUPIER MARKET

- Retail has been a much-discussed subject, as some of the tenants in retail have suffered greatly during the pandemic. However, the truth is that the sector is highly polarized. Indoor shopping centers with a large portion of fashion and footwear have had a tough time, as people have been strongly advised against going shopping amidst the global pandemic.
- There have also been few events – weddings, parties, etc. – for which one might want to buy new clothes for. Working from home has also had a negative impact on sales as the need for new work attire is virtually non-existent.
- On the other side of the coin, many have spent extra on creating nice home offices in the wake of the work from home trend; on the back of travel restrictions, many have chosen to refurbish at home and spend money at their DIY stores. Big box areas where one travels by car and is outdoors have been deemed safer to go to for shopping. Discount stores have continued to expand their store network, despite the pandemic. Leisure and gardening have also had an upswing due to more time spent on working out and improving the garden.

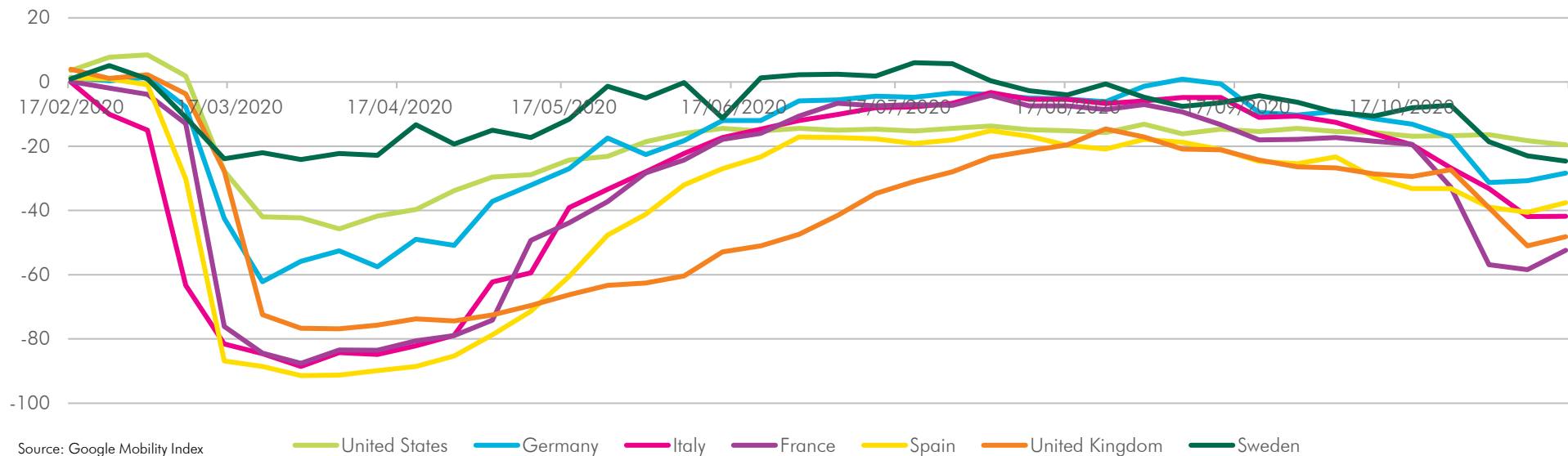
- As we move out of the pandemic, shopping centers ought to start recovering. There is good reason to expect 2021 to be a lot better than 2020, even though vacancies left will continue to put pressure on rents for some time.

### POSITIVE SIGNS IN THE INVESTMENT MARKET

- Retail has been out-of-favor with investors for a few years, as the increase in e-commerce is expected to decrease the need for physical space.
- The banks have on the back of this become increasingly restrictive with financing. However, some positive signs are visible within the big box segment, with tenants such as groceries, DIY and discount stores.
- As the discrepancy in pricing between retail and other asset classes becomes more and more underscored, the attractively high returns ought to catch the eye of investors who are hard pressed to find higher-yielding assets to invest in. We think more investors will look at the sector as we go forward, with strong focus on tenants' creditworthiness and rent payments.

**FIGURE 5: RETAIL AND LEISURE MOBILITY**

% Difference from baseline (15/2)



EMEA REAL ESTATE  
MARKET OUTLOOK 2021 | SWEDEN

## OFFICE



CBRE

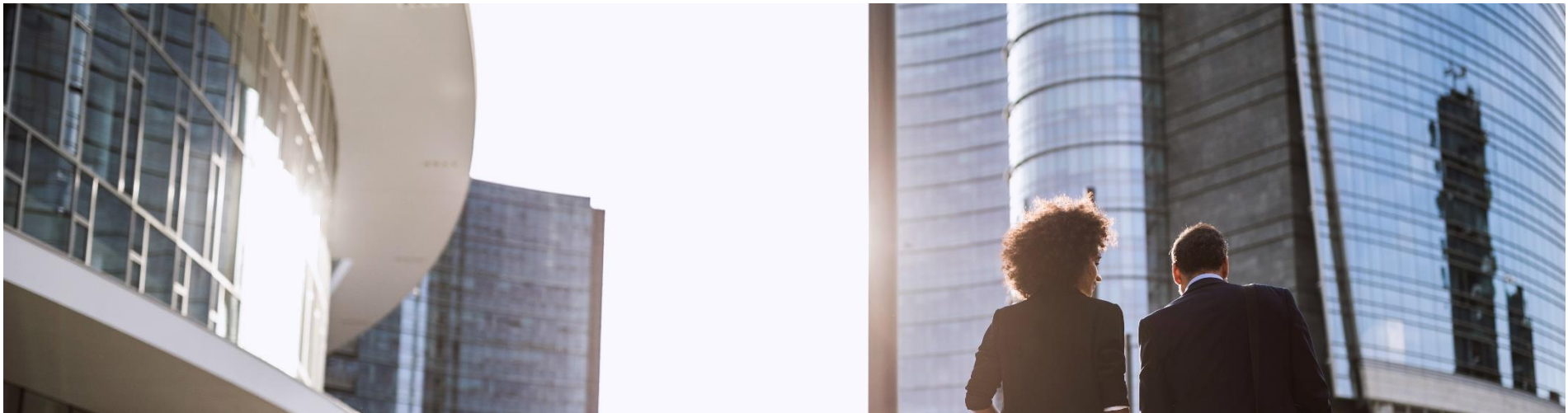
## WHAT DOES AN INCREASE IN WORK FROM HOME MEAN FOR THE OFFICE?

### DEMAND SIDE IMPACT

- The vacancy rate moved up from 4.0% in Q4 '19 in Stockholm to 6.6% in Q4 '20. Stockholm had a very low vacancy rate for prime locations before the global pandemic set in, which constrained the number of options for the office occupiers.
- As the shift to working more from home became predominant, the number of availabilities coming to market that hasn't been let increased.
- There is reason to expect vacancy rates edging up somewhat more before the recovery sets in, likely in the second part of 2021. We don't expect office rents to see an upward pressure the way it was before the pandemic, but rent levels in prime locations for the best premises is expected to hold up better than secondary locations.
- Demand conditions are expected to strengthen as the economy recovers and uncertainty in the market is reduced.
- Stockholm's pipeline for new developments for the next few years is expected to be lower than it has been in 2019–2020. That will also help the market recover in the medium term.

### INVESTMENT MARKET VIEW

- The office volumes were roughly half in 2020 compared to 2019. The yields haven't moved much as financing terms and capital allocation towards the sector have been roughly unchanged, but capital values have been affected by vacancy rates and rent levels.
- Consequently, purchasers and sellers have stood too far from each other in terms of expected pricing, and as many sellers haven't been pressed to sell, assets have instead been pulled back from the market.
- The banks have also been increasingly more restrictive with financing office deals. Transactions being made have gravitated towards public sector tenants, which are viewed as a safer option, and as off market deals in narrower sales processes.
- Going forward, an increased investment market activity will likely depend on higher visibility in the occupier market. As market conditions return more to normal later in 2021, it will make it a lot easier for investors to make decisions about investing in the office sector.



LOGISTICS





## DEMAND SIDE IMPACT

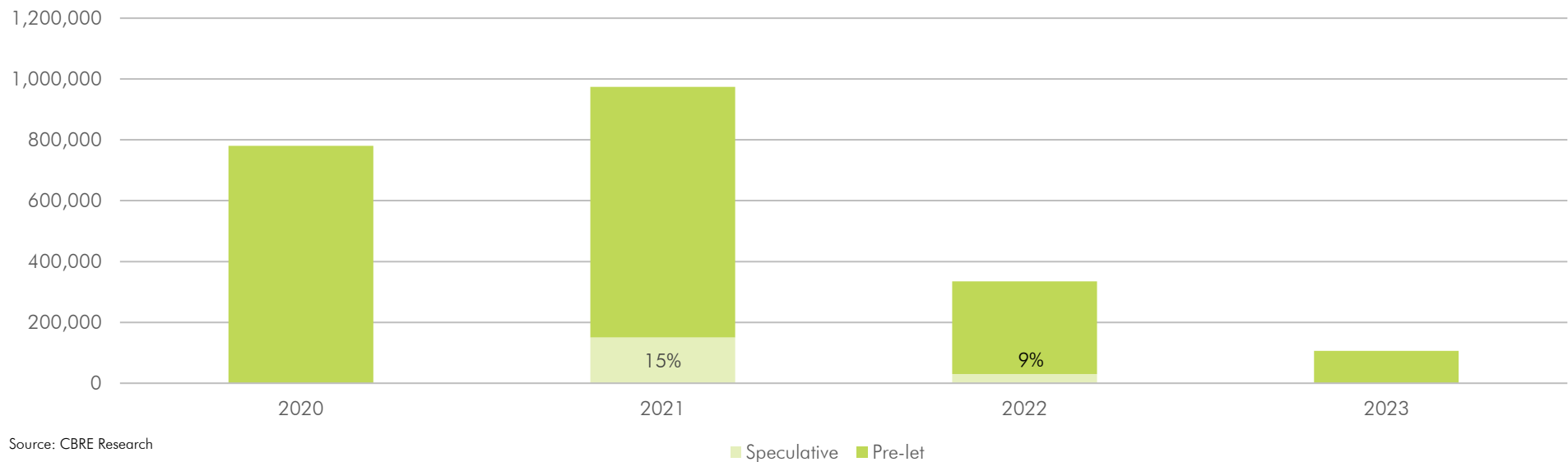
- The rapid increase in e-commerce during the global pandemic has fueled the need amongst occupiers to expand their premises to accommodate the new demand. This is especially true for e-commerce and TPL companies.
- Despite roughly 13% being finished on speculation during 2020, the vacancy rate in Q4 2020 was at 4.5%.
- There will be a spike in completions in 2021 following the demand increase in 2020 as construction lags new demand. Our estimation is that 974,000 m<sup>2</sup> will be finished during the year, of which 15% is being constructed without being pre-let.
- We believe that the demand increase will be primarily channeled through new construction, rather than through rent increases.

## INVESTMENT MARKET VIEW

- The interest in logistics has increased continuously and the sector saw prime yield compression in 2020, a strong sign given the pandemic turmoil.
- The capital allocated towards the sector remains high on the back of the global megatrend of increased e-commerce.
- Possible bottlenecks for the sector in 2021 are sellers and enough investable objects, and possibly travel restrictions.
- The Swedish logistics sector has a high share of international investors, whom could be negatively impacted of new travel restrictions.
- This risk is primarily true for the first half of 2021, as the vaccine will likely make it possible to open up successively towards the second half of the year.

## FIGURE 6: PLANNED DEVELOPMENT IN THE SWEDISH LOGISTICS' TRIANGLE

In m<sup>2</sup> and share of speculative developments, %



EMEA REAL ESTATE  
MARKET OUTLOOK 2021 | SWEDEN

## OPERATIONAL REAL ESTATE



CBRE

## HEALTHCARE CONTINUES TO BE VIEWED AS A DEFENSIVE ASSET CLASS

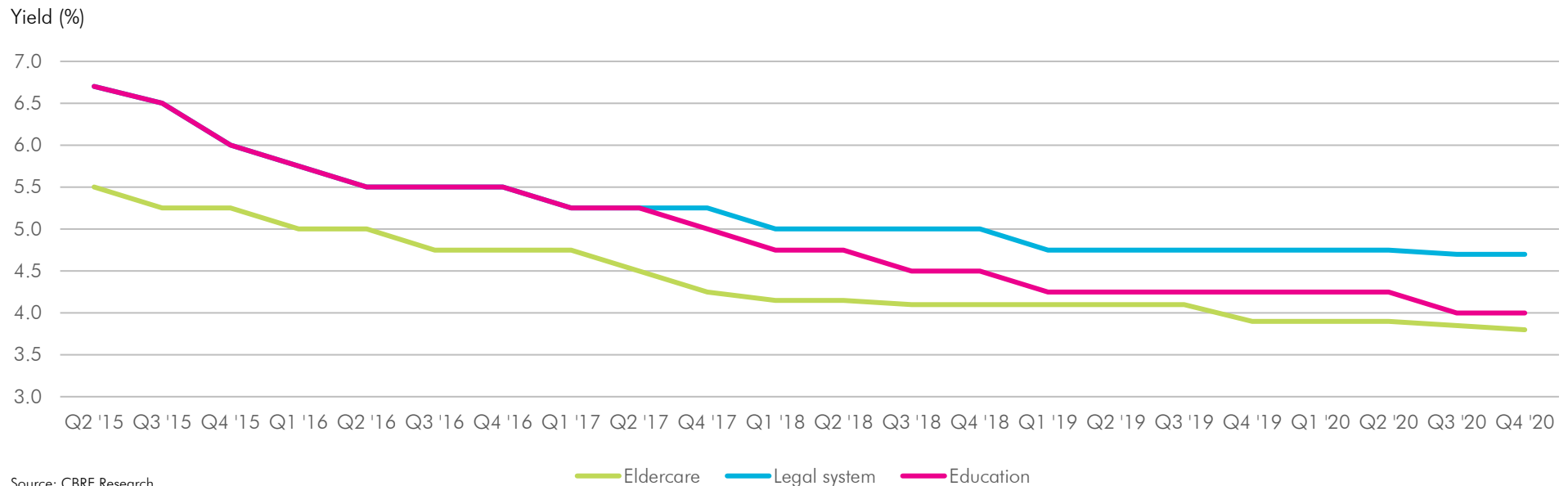
### STABLE OCCUPIER MARKET, BUT DEMAND UNEVENLY DISTRIBUTED

- The occupier market for eldercare as well as for education has been much in the spotlight during 2020 because of the pandemic. As vaccines are rolled out, targeting the eldercare in the first phases, the safety for the inhabitants will successively increase.
- Public sector tenants and tax financed businesses are overall considered desirable in the current market. An ageing population and a willingness and ability to spend more on health will continue to drive the market for many years ahead.
- The population age structure, with a smaller share in the workforce, will put pressure on municipality finances and open for private operators.
- There is however a vast discrepancy across the country in terms of the need for schools and eldercare, which of course relates to the age structure. As younger people live in the cities more of the elderly live in the rural districts, the needs are not evenly distributed, which investors need to keep in mind.

### STRONG INTEREST – BUT PREDOMINANTLY DOMESTIC

- Healthcare is a growing segment across the Nordics, with the largest investment volumes in Finland and Sweden.
- As with the multifamily segment, the healthcare property sector has seen an increased interest from investors in the last few years. A lot of institutional investors, but also property companies have entered the sector, with a certain diversification in asset type targets.
- The asset type and type of tenant give room for a certain yield spread; eldercare for instance trades lower than schools and courthouses (see chart).
- The stable demand and high visibility in the occupier market have attracted interest in the investment market throughout the pandemic. We believe this interest will be sustained into 2021, but that the investor base will continue to be predominantly domestic also this year (with a few exceptions).

FIGURE 7: PRIME YIELDS PER ASSET TYPE



EMEA REAL ESTATE MARKET  
OUTLOOK 2021 | SWEDEN

## HOTELS



CBRE

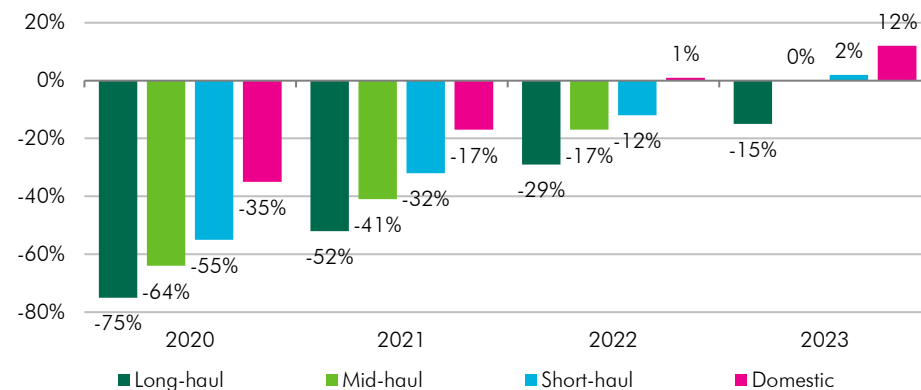
# HOTELS WILL CONTINUE TO FACE HEADWINDS IN THE SHORT TERM

## POLARIZATION BETWEEN ASSETS

- When just listening to the general sentiment with regards to hotels, it's very gloomy. The sector is certainly under immense pressure, and after having reduced work forces and other costs, many are running out of options.
- However, some assets are facing less headwinds than others. Regional hotels that are more connected to domestic leisure demand have in periods with lower infection rates performed better than hotels in the larger cities connected to international travel.
- The trajectory for hotels driven by domestic leisure demand is also expected to recover faster than the international travel hotels. The availability of a vaccine for COVID-19 will have a profound impact on the hotel market recovery.
- Assuming an effective vaccine is administered by mid to late 2021, hotel revenues are expected to recover to pre-pandemic levels in 2024. The speed of recovery will as mentioned depend on the hotel's location, business mix, physical condition, management and market position.
- The hotels that come out of the crisis will be more efficient and profitable in a more normal market environment.

## FIGURE 8: EUROPE: INTERNATIONAL ARRIVALS VS. DOMESTIC ARRIVALS

% difference from 2019 levels

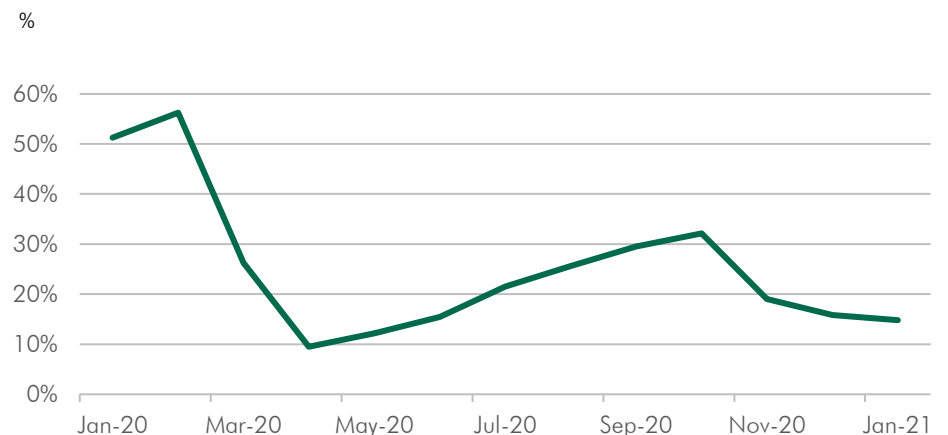


Source: Tourism Economics, October 2020

## ADJUSTING MARKET

- The development pipeline in the medium-term will likely be very thin, as few will be happy to invest in new hotel developments until the market improves. This will help the recovery further down the line.
- Investors are interested in the sector but will require pricing to reflect the current market environment. It will also be an important negotiation with regards to risk management, i.e., who will take responsibility for the operational risk.
- Investors will be happier to take on risk for properties located in strong locations with potential alternative uses.
- Business travel will likely look different post-pandemic and some trips are likely to be replaced by digital solutions. This will also be further encouraged by corporate leadership not only because of the cost efficiency component, but also because sustainability will only increase in importance.
- For leisure tourism, there is a strong resilience, and travel and experiences are fast becoming the main form of social currency. Demand for tourism will increase as Millennials and Gen Z move into their prime spending years.

## FIGURE 9: OCCUPANCY FOR STOCKHOLM HOTELS



Source: Benchmarking alliance

## CONTACTS

## Research

**Amanda Welander**

Head of Research, Sweden and Nordics  
[amanda.welander@cbre.com](mailto:amanda.welander@cbre.com)

## Capital Markets

**Patrik Kallenvret**

Managing Director of Sweden  
Head of Capital Markets  
[patrik.kallenvret@cbre.com](mailto:patrik.kallenvret@cbre.com)

**Bojan Tivic**

Head of Retail, Capital Markets  
[bojan.tivic@cbre.com](mailto:bojan.tivic@cbre.com)

**Eskil Lindnér**

Senior Director  
[eskil.lindner@cbre.com](mailto:eskil.lindner@cbre.com)

**Hampus Otterhäll**

Director, Capital Markets  
[anders.hansen@cbre.com](mailto:anders.hansen@cbre.com)

**Linn Gregorsson**

Associate Director, Capital Markets  
[linn.gregorsson@cbre.com](mailto:linn.gregorsson@cbre.com)

## Valuation

**Daniel Holmkvist**

Head of Valuation  
[daniel.holmkvist@cbre.com](mailto:daniel.holmkvist@cbre.com)

**Andreas Eckermann**

Senior Director, Valuation  
[andreas.eckermann@cbre.com](mailto:andreas.eckermann@cbre.com)

## A&amp;T Occupier – Office

**Anders Hansén**

Head of Occupier  
[anders.hansen@cbre.com](mailto:anders.hansen@cbre.com)

## Property Management

**Isabella Andersson**

Head of Property Management  
[isabella.andersson@cbre.com](mailto:isabella.andersson@cbre.com)

## A&amp;T Investor Leasing – Office

**Glenn Håkansson**

Senior Director, A&T  
[glenn.hakansson@cbre.com](mailto:glenn.hakansson@cbre.com)

## A&amp;T Investor Leasing – Logistics

**Magnus Pettersson**

Director  
[magnus.pettersson@cbre.com](mailto:magnus.pettersson@cbre.com)

**Christoffer Bladh Nord**

Director  
[christoffer.nord@cbre.com](mailto:christoffer.nord@cbre.com)

## A&amp;T Investor Leasing – Retail

**Bengt Axelsson**

Senior Director  
[bengt.axelsson@cbre.com](mailto:bengt.axelsson@cbre.com)

## EMEA REAL ESTATE MARKET OUTLOOK 2021 | SWEDEN

---



### CBRE RESEARCH

This report was prepared by the CBRE EMEA Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

All materials presented in this report, unless specifically indicated otherwise, is under copyright and proprietary to CBRE. Information contained herein, including projections, has been obtained from materials and sources believed to be reliable at the date of publication. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. Readers are responsible for independently assessing the relevance, accuracy, completeness and currency of the information of this publication. This report is presented for information purposes only exclusively for CBRE clients and professionals and is not to be used or considered as an offer or the solicitation of an offer to sell or buy or subscribe for securities or other financial instruments. All rights to the material are reserved and none of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without prior express written permission of CBRE. Any unauthorized publication or redistribution of CBRE research

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at [www.cbre.com/research-and-reports](http://www.cbre.com/research-and-reports)